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IN
TAXATION

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REVIEWS

NEWER TENDENCIES IN AMERICAN TAXATION[1]

By Edwin R. A. Seligman,

Professor of Political Economy, Columbia University, New York City.

If we regard our fiscal development in the light of what is taking place abroad at present and what has occurred in the past, we have to signalize several marked tendencies now visible in the United States.

The first point is the relation between personal taxes and real or specific taxes, or, as our legal brethren say, between taxes *in personam* and taxes *in rem*. All taxes are ultimately paid by some person, but the tax may be in the first instance imposed upon a specific thing, irrespective of the person. A tax upon a man's entire income or entire property, intangible as well as tangible, is a personal tax. A tax upon a particular piece of property or upon a particular business which affords a revenue is a real tax or a specific tax or a tax on the thing apart from the person. It is significant that taxation has generally begun as a specific or real tax and that it developed into a personal tax. In New England, for instance, the earliest taxes were on particular things, like sheep and cows and houses and stock in trade; and only at a much later period do we find the general property tax, where the tax is imposed upon the individual with respect to his entire property, whether that property consists in things or in simple relations. For one reason or another, however, which it is not necessary to emphasize here, this personal tax everywhere turned out to be a failure; and step by step during the nineteenth century in Europe and more recently in some of our advanced American commonwealths the personal tax is again giving way to the real tax, the tax on things, the specific tax. So in France, it will be remembered, when the personal taxes were abolished in the revolution they were replaced during the whole of the nineteenth century by the specific taxes, a tax on land, a tax

[1] This introduction is adapted with a few slight changes from the presidential address of Prof. Seligman at the conference of the International Tax Association at Denver, September, 1914. Although it appears in the annual volume of the Proceedings of that Association, it is reprinted here because it is in itself so valuable and because it makes such a pertinent and suggestive introduction to the other papers in this volume.—The Editor.

on houses, a tax on business, a tax on doors and windows, a tax on movable capital. In the same way in the state of New York, the real estate tax has become a tax on property, irrespective of who owns it; the tax on mortgages is similarly a specific tax; the tax on secured debts is of the same nature; the bank tax is a tax on banks, not on the shareholders, etc. In Pennsylvania and other states, the business taxes under various names are taxes on things and not on persons. The excise tax in many of our states is a tax on things and not on persons. And even the inheritance tax is in part at least a tax on the thing, the estate, rather than, as in a few cases, a tax on the recipient of the individual share of the estate.

On the other hand, side by side with this undoubted tendency to replace personal taxes by real taxes or specific taxes, we find the tendency ever springing up anew to reintroduce in perhaps another way the system of personal responsibility through personal taxes. Take, for instance, the development of the income tax movement in this country; take the recent passage only a few weeks ago of the supplementary income tax in France; take the similar movement in every other part of the world. There is thus a double movement, a movement from personal to real or specific taxes, which is best illustrated in the process that is now going on in our state and local taxation, and a counter movement from real to personal taxation, which is also obvious in this country. The lesson to be drawn from these double tendencies we shall emphasize a little later on.

The second tendency is the development from local to general taxation. All taxes were originally local and only slowly did they become general or state taxes. Often when this happened, the state taxes were tacked on to the local taxes, as is still the case in most of the American commonwealths. It is only very gradually that we find a transition from local administration to general or state administration. We are in the midst of this development at the present time in the United States, a first stage in many of our commonwealths being the central control over the local administration, and only a few of our states having reached the point, which all will reach sooner or later, of a central administration, as in the case of the excise tax or the inheritance taxes in New York, of the income tax in Wisconsin and of the corporation taxes in several states.

Side by side with this development, however, or rather somewhat

subsequent to this transition from local to general taxation, comes the reverse movement from the general to the local tax. By this I mean the transition, not so much in the administration, as in the proceeds of the tax. Thus, as we all know, the specific taxes or real taxes in Germany, like the land tax, the business tax, etc., were relegated at the close of the nineteenth century to the local divisions, while the new personal tax, like the income tax, was kept for state purposes. The same is more or less true in England. And when we come to analyze it we find that this is the real meaning of the movement now in progress in this country, of the separation of state and local revenue, or of the segregation of source, a movement based on the idea that certain taxes are more properly general or state in character while others are more properly local in character, even though the administration of these local taxes may be profitably subjected to a central control. Just as no one can understand our present American development without grasping the distinction between taxes on things or real or specific taxes and taxes on persons, so no one can comprehend the real significance of tax reform in the United States today without bearing in mind this turn from general to local taxation and back again to the separation of state and local revenue.

The third tendency is the movement from property as the basis of taxation to the produce or yield of the property or to the income derived from the property. The reason why a general property tax has broken down all over the United States is not only because it was a tax on the person without the adequate machinery to assess the person, not only because it was an attempt to tax locally what is no longer local in character, but also because under modern conditions property as a whole is not so satisfactory an indication of tax-paying ability as the yield of the property or the income from the property. We see the truth of this statement in our corporation taxes, where the tendency is strong to tax receipts, that is, yield, rather than property. We see it in the agitation over our forest taxes and our mining taxes, where the tax on yield or produce is gradually supplanting the tax on property. We see it in the feeling on the part of our business men that the property invested in the business is not so satisfactory an index of fiscal obligation as the yield or the income. And that, of course, is the main reason why the twentieth century has become the century of income taxes rather

than of property taxes. It is this fact more than anything else which explains the gradual break-up of our general property tax.

On the other hand, we find a reverse tendency, precisely as in the preceding cases. In the case of the tax on land, especially for local purposes, property is a better index of fiscal obligation than the yield or the rent of the land, simply for the reason of speculation in urban land. The speculative property value of a piece of land may be far greater than the capitalized amount of the actual rent or rental value. Just as we are only beginning to catch up with Europe in a recognition of the fact that yield or income is a better test than property in general, so Europe is only beginning to catch up with us in recognizing the fact that for local land taxes property or selling value is a better test than rent or rental value. A large part of the explanation of what is going on in England and on the continent today in local taxation is explained by this desire to change from rental-value taxation to property-value taxation. A great part of the explanation of what is going on in this country today is a recognition of the transition from property or selling value to yield or income in taxes in general.

The fourth tendency is the transition from the older theory of benefits in taxation to the newer theory of faculty or ability. This is somewhat in line with the transition from the real taxes to the personal tax. The tax was imposed upon things because the particular thing was supposed to derive some benefit from governmental activity. The tax is nowadays imposed upon the person because the person is recognized as owing an obligation to support the state just as he is held to support his family. Yet here again there is a reverse movement, in part at least. We hear a great deal in modern times of privilege and the demand that privilege should be the real test of taxation. If by privilege is meant the benefit accruing to the thing or the individual, it is an illegitimate reversal to the primitive doctrine. If, however, the privilege be regarded as increasing the yield of the property or the income of the individual, the privilege may be rightly considered as enhancing the faculty or the ability of the individual to pay; and it is proper, therefore, that the ability derived from special privileges should be subject to special taxes.

Finally we notice the tendency in taxation away from individual to social considerations. This is responsible for the idea of progression or graduation in our income taxes; it is responsible for

the differentiation or distinction between earned and unearned incomes, as we find it abroad and shall probably soon find it here. It is responsible for the exemptions granted for general social reasons. By this we do not refer so much to the exemptions in the income tax as, for instance, to the exemption of mortgages from taxation in our property tax, or the exemption of money and credits. Again, to this cause we must refer the modern movement for a higher tax on land, especially in local finance. I am, indeed, not a single-taxer—far from it—for the single-tax philosophy makes two fundamental mistakes. It neglects the distinction, referred to above, between real or specific taxes and personal taxes. When the single-taxer says that land alone should be taxed, he is thinking only of things. But as I was careful to point out above, this distinction does not apply at all to the entire class of taxes on persons. The income of an individual may be derived not from things or property but from relations, from salaries, from good will, from copyrights, from all sorts of intangible and invisible circumstances. The distinction between land and other things does not affect in the least the obligation of the person to contribute to the support of government for income derived not from things. In the second place, the single-taxers either revert to the long outworn idea of benefits, or inordinately exaggerate the element of privilege in the conception of faculty. They erect into a whole what is only a small part.

While, therefore, I must consider the single-tax philosophy as essentially incomplete, it is none the less true that a higher taxation of land or rather, if you will—in order to differentiate my idea from that of exempting improvements in the local real estate tax, in which I do not believe—it is none the less true that an additional tax on land may be entirely legitimate from the social, rather than from the individual, point of view. And, finally, as I have often pointed out, certain indirect taxes which cannot be upheld at all from the point of view either of benefits or of faculty in taxation become perfectly explicable when we regard them from the social, rather than the individual, point of view, *i.e.*, from the point of view of their consequences on the body economic rather than from that of the relation of one individual to another.

What lessons, then, applicable to practicable tax reform in the United States are to be drawn from these world-wide tendencies in

fiscal theory and fiscal practice? To the attentive student these practical lessons are obvious.

First and foremost, I should put the administrative lesson involving the transition from local to general control. This is one of the most difficult lessons for Americans to learn, because of the inveterate habits of local self-government and the old slogan of home rule. That there is a certain justification for the home rule movement in general politics I do not wish to deny; but no one who has attentively studied the progress of good government the world over can ignore the fact that a certain degree of centralization is essential to progress. I agree with careful students of the problem, like Sidney Webb in England, that what they call the local administrative anarchy of the United States is just as bad as the other extreme of the centralized autocracy of some of the European countries, and that the real solution of the problem is not centralization but central control of local action. England, the classic home of local self-government, has made during the past few decades longer steps in central control than perhaps any other country. Without tracing the movement toward centralized state or federal control, which has become so marked in this country in the past few years, in our financial system, our school system, our sanitary system, our police system, etc., it is obvious that in fiscal matters those states now stand at the head which have developed an efficient central control over local action. The sooner all of our American states fall into line with the more advanced commonwealths and develop a centralized control over local revenues and local accounts, the greater the progress toward efficiency and justice. This, I should say, is the first great lesson for all of our local statesmen to learn.

But we have a still more important and a more difficult lesson to learn, the lesson, namely, that just as local finance must in some respects be subject to state control, so state finance must gradually be subject in some respects to central control. There is, indeed, such a control now, for no state can through its fiscal laws interfere with interstate commerce. But what I mean goes further than that. Just as our new federal reserve board is effectively to control the operation of banks within the states, just as our new trade commission is designed to control business carried on under certain conditions in the states, just as the demand for a national child labor law and for similar industrial legislation is becoming louder

and louder, so the time is fast approaching when it will be impossible as well as unwise to escape federal control of certain taxes, essentially interstate in character. In modern times corporate activity has transcended state bounds; incomes are derived from nation-wide sources; and the interstate complications connected with inheritances are becoming well nigh unbearable. It will be well for all our state officials to consider carefully how best to adjust the state taxation of corporations, inheritances, and incomes to these newer conditions. It may even be the solution that we shall gradually permit the federal government to administer these taxes and to apportion the proceeds in whole or in part among the various states according to carefully defined rules. The movement from local to state control and from state to federal control in certain points of our fiscal practice is one that we must all be ready to face and carefully to study.

The second lesson that I should like to emphasize is the tendency toward the separation of state and local revenue through the principle of segregation of source. Practically, of course, this means that the real estate tax should be reserved primarily for local purposes and that the state should be alimented by proceeds of state-wide activities or phenomena, such as corporations, inheritances, and the like. That the separation of local and state revenues is a panacea for all ills no one would affirm. Nor must we forget that there are in this movement difficult problems to be solved, as we have already seen in the case of California, New York, Connecticut, etc. But the chief problems, namely, the question of providing local revenues on the one hand, and of insuring an elasticity in the state revenues on the other, are by no means insoluble, and the immense advantages that would accrue from a reasonable separation need not be adverted to here. One word only of caution. Do not confuse the segregation of the sources of local revenue with local option. While a certain degree of freedom ought within bounds indeed to be granted to the localities, it is essential, as I have intimated above, not to sacrifice the general scheme of central control to the risk of what has been called local anarchy. Just as the federal government does not permit any state fiscal interference with interstate commerce, so the state cannot permit any local disruption of the conditions that make for state-wide economic prosperity. The movement toward extreme local option, in fiscal policies at least, is like the movement to an

exaggerated individualism in party politics. The twentieth century is happily getting away from the crass *laissez-faire* and natural-rights individualism of the French Revolution. Let us beware of reintroducing into finance what we are fortunately leaving behind us in all the other domains of politics. Let us not confuse the separation of state and local revenue with the exaggerated demands of local option.

The third lesson that we have to learn is our readiness to free ourselves from our attachment to the property tax. Everywhere else in the world the general property tax has disappeared as the chief source of public revenue, and everywhere else for many decades, as I have pointed out, property is being replaced by yield or income as the base of taxation. What we are slowly doing in our corporation tax, what we are beginning to do in our forest tax and mining tax, we must get ready to do in the other parts of our general property tax. It will be a hard struggle in many of our states to bring about the constitutional changes to permit of classification of property for purposes of taxation; and yet this movement toward a classified property tax is but another way of emphasizing the point that I desire to make. For one of the reasons at least for classification, that is, levying a different rate on different classes of property, is that there is no longer any homogeneity in the yield in different kinds of property. Anything that tends to break down the reliance upon the old general property tax will be so much gained, and the sooner we get toward substituting the conception of yield or income for that of property, the closer we shall get to the practical interests of modern life. In one point alone the gain will be marked. The entire problem of franchise taxes, that is, of the tax on the franchises of corporations, will disappear for a franchise is taxable only as a piece of property, and if we replace corporate property by corporate receipts or corporate income as a test—as they have done everywhere else in the civilized world—a great number of our difficulties will vanish in thin air.

In only one point, as I have stated, must we continue to hold fast to the property idea, and that is in the matter of local taxation of real estate. But as there is no movement at the present time in this country away from the local property tax, I need not spend any time in discussing a danger that does not exist.

The fourth lesson to be drawn from present-day tendencies is connected with the distinction that I made at the outset between per-

sonal taxation and real or specific taxation. We are all agreed that the general property tax must go or, rather, that no attempt must be made to prevent its rapid disappearance. Now there are two ways of hastening its disappearance. The one method is to pursue the policy, historical, followed by other nations, namely, to convert the personal tax into a real tax, to change the general property tax on the individual into a series of taxes on the things irrespective of the individual. In this movement New York has taken the lead. As is familiar to all of you, the real estate tax has become a tax on the land and house, irrespective of the individual; the mortgage tax has become a tax on the mortgage; the secured-debt tax has become a tax on the debt; the tax on bank shares has become a tax on the bank, and so on. The immense advantage of such a movement carried to its ultimate outcome is that the administrative difficulties are reduced to a minimum and that the glaring inequalities and absurdities connected with the general property tax completely disappear. The danger, however, in the New York movement is that these steps may be considered a final solution of the problem rather than as a preparation for the ultimate solution. For, as I pointed out at the beginning, the tendency from personal to specific taxation is always ultimately replaced by a counter tendency from specific to personal taxation. In the long run you cannot silence the conviction of the average man that taxes ought to be borne by individuals in accordance with their wealth—even though you do not necessarily measure this wealth in terms of selling value of property. Accordingly, we find in one of our states, namely, Wisconsin, the second tendency referred to, *i.e.*, the effort to substitute for an unworkable a more workable personal tax, that is, in Wisconsin the old general property tax is being replaced by a new income tax. In France, you will remember, it took over a century to accomplish this result. The old general property taxes before the revolution were replaced by taxes on things, and it is only a few weeks ago that these taxes on things have been replaced by a personal income tax. The Wisconsin plan is interesting; but as I have stated in another connection, it cannot, in my opinion, solve the problem. Although income is a better test of ability to pay than property, and although the centralized administration of the income tax is an immense improvement on the local anarchy of the old personal property tax, even a state income tax cannot thoroughly succeed because of complications of interstate

taxation and the difficulty of getting at the income derived from interstate sources. Moreover, as our federal income tax develops, the confusion between the state income tax and the federal income tax levied according to entirely different principles is bound to become greater.

Thus, neither the New York system nor the Wisconsin system is in itself a solution. Each is better than the system in most of the other states; but neither is thoroughly satisfactory. The conclusion is obvious. In the one case, as in the other, an effort must be made to utilize the federal administration. Let each state add to the 1 per cent of the income tax or the corporation tax, which is a part of the income tax, as many more per cent, within reasonable bounds, as it needs for its own state purposes, and let some arrangement be made with the federal government for utilizing the federal returns. In the meantime, and as preparation for this eventuality, let those states with a less successfully organized central administration than is found in Wisconsin follow the plan of replacing their personal tax by a system of real taxes, either through a classified property tax, as is beginning in a few states, or through the system as it is being developed in New York. But do not let us delude ourselves into the belief that it will be possible or desirable by any kind of manipulation to retain indefinitely the anachronistic general property tax as it is still found in most of our states. Let us recognize the fact that New York, equally with Wisconsin, represents a step forward in the onward march of tax reform.

The final lesson to be drawn from our survey is the necessity of group or associated action among the states. In a federal form of government like that of the United States this is an imperative necessity no matter what form of taxation be adopted. It is obvious that if we have no federal control or no central fiscal legislation as is found in some of the European federal states, the complexities of double taxation will increase with the effectiveness of the tax. It is only because some of our state inheritance taxes are more successfully administered than the personal property tax that the difficulties are especially felt in the inheritance tax. But the same thing is already happening in our corporation tax and is bound to become still more important in the case of any separate state income taxes of the future. Even, however, if we have federal control or federal administration of the income tax or of the inheritance tax,

the need of some group or associated action in our states will be almost equally great; for if we should ever come to the idea sketched out above, of state additions to the federal income or to the corporation tax, there would be obvious difficulties and dangers in the way of one state making, let us say, a 1 per cent addition to the federal tax and of an adjoining state making a 5 per cent or 10 per cent addition. The risks of a transfer of business or enterprise or population from the one state to the other would be as great as at present when one state finds that unequal fiscal burdens lead to interstate migration. The practical lesson from this is that we should sedulously strive to develop the idea which is now already found in germ, the idea of coöperation between various groups of contiguous states, the idea of sectional or group associations of tax commissions such as the New England group, the central state group, etc. With this device, and with proper centralized administration, each state may be put in a position to judge of the best way to adjust its own tax system harmoniously to the interests of the whole group of states of which it forms a part. I should put this idea of interstate comity in taxation and of interstate coöperation of tax commissions at the very forefront of our present needs.

The above presentation shows how vital are the problems of fundamental importance in our present-day development. Almost every practical step that is taken by anyone in the direction of tax reform will be found to fit into one or other of the lessons that I have sought to emphasize. May our steps enable us to see each point more clearly with the lapse of time and may there emerge from this multiplicity of movements and of interests a unity that will make for fiscal justice and civic equality.

THE UNDERWOOD TARIFF ACT AS A PRODUCER OF REVENUE

By Andrew J. Peters,

Assistant Secretary of the Treasury, Washington, D. C.

(Member Ways and Means Committee which reported the Underwood Bill.)

The tariff policy of this government in the last thirty years has been, with one exception, a frank adherence to the protective policy. Its purpose has been to protect the industries of this country and to raise a revenue.

The economic developments which followed the year 1897 increased the dissatisfaction of the country with the high protective system, and while it would not be accurate to assign these developments exclusively to the tariff act, it was generally accepted that many of the more unfortunate features of our industrial life in that period were aggravated by the high tariff.

As a result of the reaction from these and other political forces there was put in power a party which prepared a tariff bill drawn on the theory of a competitive tariff. In presenting the bill to the House of Representatives, Mr. Underwood stated frankly that the rates were placed on a revenue basis, not on a protective one.

The success or failure of the lower tariff theory may not improperly be considered from the point of view of the revenue which it produced. I shall confine my observations, therefore, to the point of view of the Underwood bill as a producer of revenue, and shall make no attempt to consider the other aspects of the tariff situation.

The problem of presenting clearly the revenue returns from the tariff bill is not without its difficulties. Factors other than rates of duty enter into the equation. It is always difficult to estimate in advance the revenue which a given rate will produce.

The revenues under the same law with no change in rates vary from year to year. In some instances in the past there has been a change of more than $40,000,000 in a single year. This happened in 1908. The revenues for the fiscal year 1907 were $332,233,362 while for 1908 they were $286,113,130, a drop of $46,120,232, with no change of law. Again in 1911 the receipts from customs fell nearly $20,000,000 below those for the previous year, with a further decline of over $3,000,000 in 1912.

For the past five months business conditions have been so disturbed by the war in Europe that it is difficult to form an estimate of the effect on the revenues from customs and collections under the income tax provisions of the Underwood law.

It will be seen, however, from a study of the figures, that the Underwood bill had, up to the beginning of the war, produced all or more than the revenue expected of it at the time of its creation.

The Ways and Means committee in its report on the Underwood bill estimated the receipts from customs, for the fiscal year ending June 30, 1914, at $270,000,000 and the receipts from the income tax at $95,000,000, while the actual collections were, from customs $292,128,527, the receipts from the income tax $71,381,275, a total of $363,701,289. The receipts from customs were more than $22,000,000 in excess of the estimate, while the receipts from the income tax were about $24,000,000 less.

That the receipts from the income tax were below the normal is due to the fact that many incomes are derived from interest and dividends payable on July 1 and January 1, and on such incomes the tax accrued for only four months of the year, from March 1 to July 1. The amounts of such interest and dividends payable on January 1, 1914, were not included in the returns for the fiscal year ending June 30, 1914, but will be included in the returns for the present fiscal year.

For the fiscal year ending June 30, 1915, it was estimated that the receipts from customs would be $250,000,000. This reduction of $20,000,000 in the estimated revenues is due to the fact that for three months of the fiscal year 1914 duties would be collected under the higher rates of the old law and that the provisions for free wool did not take effect until December 1, 1914, and the reduced rates on manufactures of wool and sugar until January 1 and March 1, respectively, 1914.

The receipts for the first six months of the fiscal year 1914 have been only a little in excess of $107,500,000, indicating receipts of $215,000,000 for the fiscal year or $35,000,000 below the estimate of the committee. It must be remembered that such estimates were made at about the time of the passage of the tariff act and before any international complications were anticipated.

This falling off is undoubtedly due to the effect of the war in Europe on commerce generally, and particularly of imports from the

belligerent countries. The imports from these countries are chiefly manufactured articles subject to the higher rates of duty and the value of the imports from France, Germany, Austria, Hungary and Belgium has fallen off approximately $70,000,000 as compared with the previous year.

The estimate of the treasury department indicates an expected falling off in revenues for the current financial year from customs of $100,000,000 on account of the war,—an estimate which the receipts so far indicate to be not far from correct.

The receipts from customs, however, have maintained themselves at high figures when one takes into consideration the tremendous disturbance of the commerce of the world which war conditions have created.

The duties collected for the first six months for the fiscal year 1915 as compared with the preceding year are as follows:

	1915	*1914*	*Loss*
July	$27,806,654.00	$22,988,465.00	$4,818,189.00
August	30,934,952.00	19,431,363.00	11,503,589.00
September	26,794,494.00	17,225,887.00	9,568,607.00
October	30,138,049.00	16,271,829.00	13,866,220.00
November	21,173,628.00	16,924,408.00	4,249,220.00
December	21,510,140.00	14,890,982.00	6,619,158.00
Total	$158,357,917.00	$107,732,934.00	$50,624,983.00

The loss of $50,624,983 for the last six months of the calender year 1914 contrasts with a loss for the first half of that year of $18,542,359.

It appears fairly certain that the income and corporation tax for the present fiscal year will reach $80,000,000, receipts from customs $215,000,000, which makes a total revenue under the Underwood law, notwithstanding the disturbed conditions due to the war, of $295,000,000. A result which indicates that under normal conditions the Underwood bill will produce all the revenues expected of it.

SOME ASPECTS OF THE INCOME TAX[1]

By Mortimer L. Schiff,

New York City.

In considering the income tax, the subject may be discussed either in the abstract to determine whether any income tax constitutes an advisable method of taxation, or accepting the principle that such a tax is sound, the law imposing it may be examined to see whether it is so framed as to provide for a form of taxation, which is equitable in its application and desirable in its methods of administration and of collection. Since I have been asked to treat the subject primarily from the point of view of the business man and to discuss the practical workings of the law, rather than its theory, I shall not enter into the question of whether an income tax as such is an advisable method of taxation, although I am inclined to favor this form of raising revenue for the government, if the tax is equitably levied and administered. For the same reason, I shall not touch on the very interesting economic question of whether income derived from investments should be taxed differently from that resulting from personal service.

It may safely be assumed that taxes are generally unpopular among those upon whom they fall, but it is the function of government, particularly in a democracy, such as ours, to so levy and administer them, as to cause the least possible hardship and to so distribute them as to make every citizen pay his or her just proportion of the expenses of the government and of the protection enjoyed. We have become so accustomed to having the income of our government provided by customs, internal revenue and other forms of indirect taxation, that any direct tax is bound to be disliked. We are not used to the parental form of many European governments and, therefore, an income tax, with its resultant inquisitorial methods and prying into the affairs of individuals is, from its nature, bound to cause dissatisfaction, a large part of which is possibly unwarranted. We have, however, the right to expect that the tax should be fairly applied and should be administered in such a way as to cause the least possible friction and hardship and a minimum of expense in its collection.

[1] This article was written in November, 1914.—The Editor.

It is the duty of every citizen to do his part towards maintaining the government under which he lives, but he should be relieved from unnecessary exactions.

Adam Smith, in *The Wealth of Nations*, has given certain maxims with regard to taxation, which have become almost axiomatic in their general adoption. Among various rules, which he lays down, are the following, namely, that the subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the income which they respectively enjoy under the protection of the state; that every tax ought to be levied at the time and in the manner in which it is most likely to be convenient for the contributor to pay it; that every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state. Applying these particular rules to the income tax, as imposed by our law, we find that it meets none of these requirements. The citizens of this country are not required under our laws to contribute towards the support of the government as nearly as possible in proportion to their respective abilities. The tax is levied in a manner which is not generally convenient to the contributors who pay it. The expense of collection is so great that the tax is not so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury.

According to figures, made public by the secretary of the treasury on October 23, 1914, 357,598 individuals, of whom 278,835 were married and 78,763 were single, paid income tax for the period ended December 31, 1913. This is considerably less than one-half of 1 per cent of the population of the United States. Even assuming that each one of those married represents a family of five, we find that the tax was paid in respect to the income of some 1,472,938 individuals, or, in other words, that about 98½ per cent of the people of the country escaped this form of taxation. As comparatively few pay any other form of direct tax, the result is that the great bulk of our population contribute nothing directly to the state. Experience in other countries, where an income tax is an established means of taxation, has shown that the rate of such a tax steadily increases as the demand for revenue by the state becomes greater, and it is to be presumed that there will be the same tendency in the United

States. There is danger in having a tax, which already forms a substantial part of the income of our government, and which probably will be called upon to provide an increasing portion of the expenses of the nation, fall upon so small a percentage of the population. This tends to encourage extravagance in government, as legislators are more apt to incur additional expenditures, when the revenue to meet them is secured by increasing the amount contributed by comparatively few of the people of the country, while they would be likely to hesitate to do so if this necessitated the placing of additional burdens upon the entire citizenship. But even a greater danger lies in the very fact of the popularity of the tax among the great mass of our people through their escaping this form of taxation. When the matter recently came up for discussion as to how to increase the revenue of the government, in order to make up for the falling off of customs receipts, the very first proposition was to increase the amount of the income tax. This met with considerable favor, but the proposition that the exemption should be decreased met with instant objection.

To examine all of the details and possible criticisms of the law would lead too far, but attention may be called to a few of the points which have arisen.

In the case of married people living together, only one exemption of $4,000 can be claimed, even though they have separate sources of income. While the act itself simply provides that but one exemption can be claimed, the regulations go further and provide that either one return shall be made of the income of both, or that if separate returns are made, one shall be attached to the other. Cases may arise where one of the parties is unwilling to disclose his or her income to the other and it hardly seems justifiable that the regulations should read something into the act which is not written there. Would it not be better to allow a definite exemption to each individual, whether married or not, who enjoys a separate source of income, with possibly an additional exemption for dependent wife and children?

The act provides that living expenses may not be deducted from the taxable income. On the other hand, the farmer, a part or all of whose crops are consumed as food by himself and his family, is not required to include in his income the value of the crops thus consumed. He is, therefore, to that extent receiving an allowance for living expenses.

Under the most recent ruling, it is not permissible to rate securities, and losses can be charged against income only when actually incurred, although even that is now questioned, unless the losses are sustained in the business in which the taxpayer is engaged. There seems to be no good reason why investors should not have the option of either keeping their books on the basis of carrying securities at actual cost and charging losses and crediting profits, as they arise, or of valuing their holdings at the market price once a year and either crediting or debiting income, as the case may be, with the increased or decreased value, as established by such prices. This privilege was extended to corporations under articles 111 and 135 of the Regulations, which permitted corporations not only to rate securities, but also to amortize bonds purchased above par, so as to maintain them on the interest basis on which they were purchased. Under the most recent ruling the privilege extended under article 111 of the Regulations has been withdrawn and it is now ordered that in computing the amount of their taxable income, corporations may take into account only actual profits and losses. Needless to say, every individual having once chosen the method he wishes to adopt should be compelled to maintain that method year by year, although it might be provided that upon giving sufficiently long notice, he should be authorized to change his system of accounting. Even under the provision that only actual losses or profits can be taken into account, many complications arise. The following example is only typical of the difficulties encountered in construing the law. A man buys, let us say, 100 shares of stock at $120 per share. A few weeks afterwards, he buys another 100 shares at $110 per share and then sells 100 shares at $115 per share. Has he lost $5 per share on his original purchase, or has he made a profit of $5 per share on his second purchase, or has he come out even in respect to half of his holdings as against his average cost?

The law in specifying income covers it not only as received, but as accruing. It is not clear whether the reverse is provided for, namely, whether accrued interest included in the purchase price of securities can be deducted from the interest when received. According to the language of the act it seems as if, in the case of bonds purchased say on June 1st for a stated price, the buyer would have to report as income a full six months' coupon collected on July 1st, notwithstanding the fact that five-sixths of such coupon has

been paid by him to the seller, as part of the purchase price, while the seller would escape taxation in respect to that part of his income. There has been no authoritative ruling on this, although it has been informally stated by the treasury department that the buyer need include only the proportion of the interest actually received by him and that the seller is liable for the tax on the amount of interest which he received as part of the purchase price. In the case, however of bonds, the tax in respect to which has not been assumed by the debtor corporation, the amount of the tax will be deducted from the coupon, when presented by the buyer, with the result that he must, in order to protect himself from loss, deduct from the purchase price the proportionate share of the tax chargeable to the seller. If the seller claims that he is exempt, while the buyer is not, the resulting complications and difficulties become even greater.

The act provides that corporations may deduct from their gross income the amount of interest accrued and paid within the year on their indebtedness to an amount of such indebtedness not exceeding one-half of the sum of their interest-bearing indebtedness and their paid-up capital stock outstanding at the close of the year. If the intent of this provision was to legislate against corporations, which have only a nominal capital stock, in order to reduce the amount of their taxable income, it seems as if that purpose could be fully covered by making this provision apply only to corporations incorporated after the passage of the act, as there seems no sound reason why corporations in existence prior to that time should not be permitted to deduct the entire amount disbursed by them in interest on their indebtedness.

The provisions in the law as to the method for arriving at the taxable income of corporations show that it has been attempted to do by indirection, what it has been urged to do by direct legislation. It is clear that by the provision forbidding corporations to deduct from their net income dividends received from other corporations, it was intended to discriminate against holding companies. It hardly seems fair that companies, which by the nature of their business, or through the location of their property, are compelled to hold portions of their property in a perfectly legitimate manner through the medium of another corporation, should be penalized for doing so, in order to meet public clamor against what are generally known as holding companies. It is not within the province of this discussion

to enter into the question as to whether holding companies, as such, are desirable, or not, but it must be conceded that in many instances it is necessary for one corporation to hold the stock of another. Why, therefore, should there be a penalty when a perfectly proper purpose is fulfilled? Take, for example, the case of a railway corporation, which owns a line in the state of Texas, which it can hold under the Texas law only through a Texas corporation. The latter must pay the income tax of 1 per cent upon its net income and then the parent company must again pay the same tax on dividends received, with the result that a tax of 2 per cent must be paid in respect to this part of its income.

The law provides for the collection of the tax at its source, in respect to certain classes of income, and this has given rise to the greatest cause of complaint. The intent of the law is that, so far as possible, the payer of income and not the recipient, shall be held responsible for the payment of the normal tax. This method of collection is an importation from Europe and is copied, to a great extent, from the provisions of the English income tax law. It has, however, apparently been overlooked that in England substantially everybody, except the person dependent upon daily wages, is taxed and that practically no one in receipt of any other form of income is exempt. The framers of the law have also failed to take into account the difference in the size of the two countries and in their methods of business. They have failed to take into consideration the methods by which collections of income are made here; of the manner in which coupons on American bonds are collected; of the fact that most coupons in this country are guaranteed tax free and of the wide diversification of investments by even the class of small investors.

I am frank to say that the provisions for collecting the tax at the source have proved less troublesome than I feared, when, as a member of the committee, I participated in May, 1913, in framing the report on the income tax of the committee on finance and currency of the Chamber of Commerce of the State of New York. This has been due, however, not to the provisions of the law itself, but to the possibly temporary rulings of the treasury department. During the first few months of the operation of the law, these provisions proved very burdensome, due, among other causes, to the variety of forms, to the lack of uniformity in their printing, to the

doubt existing as to many points of the law, to the new and revised instructions issued from day to day, to the necessity of stating bond numbers on certificates, to the impossibility of knowing how much in the way of records and reports the government might require and what information and records withholding agents and debtor corporations would need for their own protection and also to the difficulty of securing the coöperation of the public. The regulations gradually became simplified and, after six months' trial of ownership certificates, the treasury department revised the list of certificates for the purpose of eliminating repetition, as well as of standardizing the certificates, as a result of which the method of procedure has become considerably simplified. In this process of revision, the number of certificates to be used has been reduced from 19 to 10. The regulation requiring that numbers of bonds be written on the certificates, after being enforced during the first few weeks of the operation of the law, has now been rescinded, the last ruling having waived this provision until further notice. The advantage of enforcing this regulation is so questionable and the task so unwieldy, that it is to be hoped that this requirement will be eventually waived altogether.

The collection of the tax at its source forces the disclosure of investments to others, which is objectionable to our own citizens and to some extent at least militates against American investments by foreigners, who are disinclined to give this information.

Under the scheme of certificates, to be executed when collecting coupons, it was at first required that non-resident aliens, claiming exemption, should attach certificates to their coupons, giving their names and addresses, even in the case of bonds issued exclusively in foreign currencies and held entirely abroad. Later this was modified and the treasury department ruled it would be sufficient if a responsible bank or banker executed the certificate, provided it was accompanied with a list of the names and addresses of the individual holders. Since then there has been a further modification and the ruling, now in force, permits banks and bankers to use a form of certificate, which does not require the names of the holders to be disclosed. The banks and bankers must, however, agree to furnish the names, if requested to do so. Even this is, in many instances, not possible, as foreign banks or bankers paying such coupons on behalf of American corporations can themselves only secure the information as to who are the individual holders of the obligations, if the holders are

ready to declare themselves. This they are frequently unwilling to do, as under the terms of the bonds which they hold, they have the absolute right to receive the interest, without any deduction for American taxes, and therefore see no reason why they should give information to others as to their investments. This is particularly the case in France, where securities are scattered among a large number of small investors. The result is that, failing to secure proper exemption certificates, the American corporation may be held liable to our government for the tax, even though by the nature and form of its bonds, to which the interest appertains, it is perfectly clear that the bonds are held by non-resident aliens.

The machinery provided by the law is so cumbersome and complicated as to make it difficult of comprehension to the average person and has placed a burden upon collecting agencies, which is out of all proportion to the amount collected by them. As the tax is administered, it has become necessary for all those who collect interest and dividends to create additional machinery for handling the large amount of extra work involved and, as a result, all such agencies have been placed under heavy expense. It does not seem fair that the government should force corporations and individuals to bear this expense and do work, which properly belongs to the government, without compensation.

In England this has been recognized to some extent at least by the allowance of what is commonly known as "poundage" to those collecting foreign dividends. The English law provides that a person entrusted with the payment of dividends, who shall perform all necessary acts, so that the income tax thereon may be assessed and paid, shall be entitled to receive as remuneration an allowance of so much (not being less than three pence) in the pound of the amount paid, as may from time to time be fixed by the commissioners of the treasury. This applies only to dividends, payable out of the revenue of foreign and colonial states and dividends of foreign and colonial companies.

It is interesting to note that the regulations require the debtor corporation to surrender the certificates to the collector of internal revenue monthly, with the result that the corporation is at once deprived of the only evidence it ever possessed for its own protection from tax liability on the interest to which these certificates appertained. Therefore, the only way the corporation has of protecting itself is to undertake the labor and expense of making duplicate lists for its own files.

Experience has shown that it is with considerable difficulty that corporations, whose bonds are tax free and the interest on which is, therefore, payable without deduction of the tax, can secure from the holders of small amounts of these bonds properly drawn exemption certificates to enable the corporation to secure a refund of the tax thus withheld. As a result, the government receives taxes to which, under its own law, it is not entitled. There is little doubt that thousands of ownership certificates covering payment of coupons and registered interest, are executed by bondholders without regard to their own financial condition and that many do not claim exemption, because the company pays the taxes. The bondholder, knowing that the debtor corporation will in any event pay the interest in full, naturally applies his exemption to some other form of income. As a result, the corporation, under the tax free provision, is made to assume the normal tax of such bondholder in respect to that income. A marked example of this is the election permitted by the government to trustees and other fiduciaries to claim or not to claim exemption from collection at the source. Naturally trust estates waive any claim of exemption upon such payments, as they thus throw the responsibility for the tax upon the debtor corporation in virtue of the tax free covenant. In the absence of the tax free covenants, as for example, the collection of rents belonging to trust estates, it has been found that trustees prefer to claim exemption from withholding at the source. As the ultimate liability for taxation depends upon the status of the beneficiaries of the trust, concerning which the debtor corporation has no information or means of information, the practice permitted and encouraged by the government tends to render the debtor corporation liable for taxes, regardless of whether or not the actual beneficiaries of the income are subject to the tax.

The method of collecting the tax has entailed tremendous expense upon corporations disbursing interest to a mass of investors. It has resulted in burdening the companies with a vast amount of additional detailed labor, both in the handling of the prescribed certificates and in the preparation of the monthly and yearly reports to the tax collector. One of the large railway corporations in this country states that the collection of the income tax at the source necessitated more than doubling the clerical force at its coupon and interest desks. This particular corporation estimates that it will have to handle about 100,000 tax certificates per year, of which all

those which show tax liability must be listed monthly in duplicate and each one of these monthly returns requires the signature of the treasurer or assistant treasurer of the company making the return.

It appears that the actual cost to corporations incident to withholding the tax at the source is from 10 per cent to 20 per cent of the amount collected for the government, an imposition upon the intermediary corporation of a very considerable service for the government without compensation. Indeed, in most cases, the companies themselves, on account of the tax free clause in their bonds, are paying practically the entire tax, which under the regulations they are called upon to retain and are thus put to a heavy expense, in order to give evidence to the government why they pay the tax and why it is not greater. It is to be assumed that it costs the government on its part at least as much to receive and tabulate these returns, as it does the corporations to make them and that, therefore, the entire expense involved, covering the collection and recording of the tax thus withheld, amounts to from 25 per cent to 30 per cent of the amount collected.

In the case where interest is not paid by the corporation itself, but through a fiscal agent, such as a bank or trust company, additional expense is involved. Before the income tax law went into effect most of these banks and trust companies, acting as paying agents, considered themselves amply repaid for the work involved by the interest gained by them on the deposit of the funds received for this purpose. In view of the additional work required on account of the income tax law, many of the banks and trust companies have felt compelled to charge the companies a percentage on the amount paid, to compensate them for their trouble.

The case of one of the larger New York trust companies is typical of the burdens placed upon collecting agencies. Of the corporate interest paid by this company during the first six months of 1914, 62 per cent was paid on ownership certificates claiming exemption and 38 per cent on certificates not claiming exemption. In respect of approximately 89 per cent of the interest paid to those not claiming exemption, the tax had been assumed by the debtor corporation and as a result the amount of taxes actually withheld by the trust company itself amounted to less than one-twentieth of one per cent of the total amount of interest collected and disbursed by the trust company during that period. The expense and work

connected with this can readily be imagined and all this to collect for and pay over to the government less than one-twentieth of one per cent of the total amount of interest disbursed by this particular company.

In collecting coupons for depositors, the experience has been that, notwithstanding the increased facilities, there is considerable delay. On the first of every month on which interest is payable, particularly in January and July, these delays extend over a period of four or five days and in some cases even longer, which is naturally very inconvenient to bondholders and in the case of larger holders the loss in interest is considerable.

As illustrating another of the difficulties which withholding at the source entails, mention may be made of notes given in payment of rent, interest or other income. To be certain that any note for an amount exceeding $3,000 is not issued for such a purpose and therefore subject to deduction, every discounter of such a note is bound to inquire into the purpose for which it was originally issued, as the regulations clearly state that if a person, in acquiring such a note from a previous owner, has omitted to make deduction of the allowance for the tax, he can look for relief only to the person from whom the note was obtained, as the debtor is required to deduct, withhold and pay to the collector of internal revenue the amount of the normal tax, which may be due thereon.

As to the amount withheld from salaries, it is necessary to make each month a list of those whose salary is in excess of $3,000 per annum, which in the case of those having a large number of employees is a considerable undertaking. This is required monthly, by reason of the changes in salaries and positions that may take place during the period affecting the amount to be withheld. As the employer is not required to withhold, until over $3,000 is paid, it is necessary to follow up the salary of each employee receiving more than that sum, to ascertain at what time of the year the first deduction from his pay is to be made. The employer must then obtain from such employee his exemption certificate, if he is entitled to one, and give instructions as to the amount to be withheld. It frequently happens that more is withheld from parties than they are required to pay the government. For instance, in the case of a married man receiving $5,000 salary the employer is required to withhold $10. In the employee's income return to the government, he may, however, show

exemption other than that allowed by paragraph C of the law, and, therefore, he is entitled to a refund from the withholding agent, upon filing a copy of his annual return with such agent. It can readily be seen how much trouble and annoyance this causes both the employer and the employee.

A complication which is only just developing is, that individual bondholders, who reported in their returns for the period ended December 31, 1913, bond interest as having been subject to collection of the tax at the source, are being called to account by the collectors of their districts, who are, of course, unable to verify the return in this respect. Inquiries and complaints received from individual bondholders would seem to indicate that the internal revenue department has neglected or has found it impossible to assemble the information received from different sources as to the income of each individual taxpayer. That is only one of the difficulties in providing for deduction at the source in a country of the extent of ours, which does not exist in a country of a more limited area, such as England.

The officials have gone to the extreme in asking for information, much of which hardly appears necessary or even germane to the act. Only recently a request has been sent out to all corporations to furnish the internal revenue department with a list of preferred and common shareholders, of the number of shares held by each and of the amount of dividends paid to each during the ten months ended December 31, 1913. In view of the fact that dividends are not subject to the normal tax, it hardly seems that any sound purpose can be accomplished by this, and that it was obviously designed to verify the returns of parties subject to the additional tax. In the case of a corporation with many shareholders, the burden thus attempted to be thrown on the corporation was certainly disproportionate to the information of actual value and to any beneficial results which the department could hope to gain. It would have been a comparatively simple matter to furnish a list of those to whom dividends amounting to over a certain amount had been paid, but in order to secure information as to the limited number of large payments, the government required a complete statement of all payments. In the case of one corporation, this requirement involved the preparation as of December 31, 1913, of a stock list of considerably more than 20,000 names, and the preparation of a list of quarterly dividend payments

during the year to this large number of stockholders, including a comparison of the dividend lists of each of the quarters and the assembling of the payments made in each quarter to each stockholder. On a computation that the preparation of the dividend list alone would involve over one hundred days' work by one clerk and a considerable expense, for which there seemed to be no legal warrant, the position was taken by this corporation that the information would not be furnished without the exhibition of specific legal authority for its request. No attempt has thus far been made to produce such authority and the government has apparently not urged this requirement further, in respect to corporations who have protested.

It is to be remarked that the agency which withholds does not pay the amount thus withheld to the government until the tax itself is payable, namely, in June of the following year. It results from this that the withholding agent has the use of the money thus withheld for a period of at least six months and possibly eighteen months without interest, while the recipient of the income is deprived of the use of that amount for a corresponding period. It should further be noted, that if the withholding agent, through bankruptcy or otherwise, fails to pay the amount withheld to the government, as may readily happen in the case of parties of limited responsibility, the recipient is responsible for the payment of the tax, notwithstanding that it has already been withheld from him.

According to the language of the act, many Americans living abroad can, as a practical matter, escape taxation, even though all their income is derived from American investments. Article D of the act states that a person residing in a foreign country shall make his return in the place where his principal business is carried on within the United States. There is no provision for such a person making his return elsewhere if he has no place of business in this country. Of course, if he fails to make any return and is discovered, he is guilty of a misdemeanor, and yet there seems to be no way provided for enforcing the law in regard to this.

It has recently been ruled that members of a partnership are not entitled to follow up the sources of the income of the partnership and avail themselves of the exemptions to which they may be entitled on certain classes of that income. As partnerships, as such, are not taxed, it would seem proper that such of the income as is

derived, for example, from dividends on stocks should be exempt as to the normal tax in the hands of the individual partner, who receives it.

Embarrassment has been caused in connection with the issue of additional bonds under open mortgages made before the tax law became effective, when such mortgages contain the tax free covenant. Aside from the trouble and expense of making issues of such bonds not subject to this clause, it is very objectionable to have two kinds of bonds outstanding under the same mortgage, one of which is tax free and the other not. The existence of two such classes of bonds adds to the burdens incident to the making and recording of interest payments and requires unusual vigilance on the part of paying agents to distinguish between the coupons appertaining to the two classes.

Eminent legal authorities have called attention to the crudity of the act, but it is interesting to note that since the law has gone into effect, there have been not only the general regulations, consisting of 199 articles, but also 87 official treasury decisions, 26 official letters and 1 executive order, in addition to a very large number of letters and rulings furnished by the commissioner and his assistants in response to inquiries received. Many of these regulations, rulings and decisions are not in themselves clear and in a number of cases they substitute departmental construction for the law itself. For example, under the strict provisions of the act, each party through whose hands income passes, has the right to withhold the normal tax, notwithstanding that it has already been withheld by someone else and, in addition, the recipient of the income in question is also made liable. This provision is so manifestly unfair, that the treasury department has decided not to enforce it. Article 34 of the regulations relieves everyone, except the original debtor from withholding. In other words, the provisions of the law seem sufficiently unreasonable for an administrative branch of the government to nullify it.

The act is silent as to the method to be adopted by partnerships in arriving at their profits or losses, to be divided among or be borne by the partners. Even the treasury department seems to be uncertain how to construe the law in this regard and its rulings are quite unclear. The custom of practically all firms, whether dealing in merchandise or securities, is to take an inventory of their assets at the end of their fiscal year in order to determine the results of the year's business. This necessitates valuing the assets at a fair market value,

so as to avoid dividing what may be called "paper profits." The act, which exempts partnerships as such from the income tax, does not provide whether this may be done by partnerships, or not, but under the most recent ruling, which reverses a former one, individuals and corporations are not allowed to do so. There seems to be no good reason why this should not be permitted, as any amount written off in any one year will appear in a future year's income return to the extent that all or part of such amount may be recovered, when the assets, which have been written down, are actually sold. The only possible explanation for not permitting individuals and corporations to reduce the value of their assets to market value, if this is lower than cost, is that it is feared that in a period of depreciation of values, it might result in a heavy falling off of the revenue to be received by the government from the income tax.

The construction of the provision that only losses incurred in trade may be deducted is a curious one. The treasury department has now ruled that it will not permit deductions from income to be claimed for losses actually incurred in the sale of real or personal property, unless the person claiming such deductions is engaged in the business of dealing in the property in connection with which the loss has been incurred. In other words, a merchant, who has invested money in securities or real estate, would not be permitted to deduct from his income the amount lost by him in the realization of such an investment. While the language of the act is unclear in regard to this, it had generally been understood that this would be permitted and it may safely be assumed that the great majority of returns for 1913 by persons who had incurred such losses, were made on this theory. It hardly seems just that the merchant, who has purchased a piece of real estate as an investment and sells it at a profit, must include that profit in his return, while if he disposes of it at a loss, he should not be permitted to deduct the loss from his income, although the professional real estate speculator may do so. The unfairness of this is manifest and it can hardly be supposed that this was the intent of the framers of the law. It shows, however, how necessary it is that the act should be so written as to be beyond misunderstanding, so as to avoid the necessity of having departmental authorities construe it.

Article 43 of the regulations may well be cited as an example of leaving to others the determination of matters, which, according to

the act itself, is vested in the government. By this article, direction is given to withholding agents or others with whom certificates executed by an agent are filed, either to stamp such certificates, that they are satisfied as to the identity and responsibility of the agent or to require evidence as to the authority of such agent to so act. While this is a convenience, there seems to be no warrant for this in the act itself.

It may, however, fairly be questioned whether a law, which is subject to so much misunderstanding and requires so many rulings as to its meaning, is in itself sound. The law is so unclear as to many points that a number of the rulings are in the nature of a compromise and it hardly seems within the function of the treasury department to supplement defects of the law.

The least we have the right to expect is that the law should be absolutely clear as to its requirements and that if it is not, it should be amended to make it so. Apparently the authors of the act had not a very definite idea in their own minds as to just what should be taxed and as to the manner in which the collection should be made. The act is curious in that, while dealing as a whole in generalities, it attempts to go into detail as to certain points, with the natural result of causing further complications. For instance, it particularly exempts losses arising from fires, storms or shipwrecks, not compensated for by insurance or otherwise, but does not permit exemption for losses from floods, earthquakes, war, or other similar happenings.

What is the remedy, and how can the law be improved, so as to prevent unnecessary burdens upon business and be made less exacting in its requirements from individuals? Assuming that the income tax has come to stay and leaving aside the question as to the lowering of the exemption, it seems that information at the source could well be substituted for collection at the source and the tax be directly collected from recipients of income.

The present act provides for the filing of certain returns by individuals and corporations and for the assessment of the tax on the basis of these returns. Why should it not be made incumbent upon each individual to file with the proper authorities a return of his or her entire income from whatever source derived, much as is done under the present act, permitting claims by the individual for such exemptions, as may be provided in the law and then when the actual assessment of the tax is made, make it the duty of the individual to pay his or her own full tax? If a check upon the correctness of these

returns is needed, it could be provided that all those corporations, partnerships and individuals, who pay income to other persons, should file at stated intervals, lists showing the nature and amount of the payment and the names of the persons to whom it was made. This would not require the filing by individuals of exemption certificates with those who pay income and would much simplify the present cumbersome and expensive method, while at the same time it would enable the treasury department to check up the returns of individuals to such an extent as to provide against dishonesty. It is not likely that there will be many cases of understatement of income. The government could be fully protected by incorporating in the law very severe penalties for any deliberate withholding of facts or understatement of income. The work and expense now resting upon paying agents would be much less and the burden of collection would fall on the government, where it properly belongs, and upon the individual who is the person whom it is proposed to tax.

It has been quite impossible within the scope of an article, such as this, to cover the ground thoroughly and to show all the defects of the law. It seems clear, however, that the act needs revision to remedy its faults and to make its requirements readily understood. Such a revision should preferably be undertaken by a paid commission of experts, as no congressional committee, with the limited time at its disposal and the pressure of other matters, can adequately deal with so intricate and complex a subject. The congressional committee might well determine the broad principles of the law, but the act itself should be drafted and its details worked out by experts, who could then report their conclusions to the committee for submission to Congress.

I would summarize as follows:

1. The exemption is too high and should be reduced to such a figure as to make only those exempt who have substantially no source of income, except their wages.

2. The system of collection at the source should be abandoned and a system of collection from the recipient substituted, with information at the source and severe penalties for false statements.

3. The law should be so clarified as to make it comprehensible to the average person, so as not to require administrative departments of the government to construe it or to correct its defects; a method which is dangerous in itself and is certain to lead in time to endless litigation between the government and its citizens.

AMENDING THE FEDERAL INCOME TAX[1]

By Roy G. Blakey,
Cornell University.

There is every reason to believe that the new federal income tax is to be a permanent part of our fiscal system. Its framers doubtless intended that it should be and the American public apparently has no other expectation. Not only does the experience of other countries confirm this probability of indefinite continuance, but it indicates, also, that this tax will grow in importance with the passing of time. Deep-rooted changes now taking place in American economic and political conditions all point emphatically in the same direction. In fact, in a degree more than most of us seem to realize the relative importance of the income tax seems destined to increase while that of our hitherto most important federal taxes is almost sure to decrease.

In view of the not improbable relative decline of revenues from other sources and of the constantly increasing demands for greater and more varied expenditures and, further, in view of the fiscal possibilities of a wisely-drawn and administered income tax, it is of great importance that we lay broad and firm foundations and that the entire structure be carefully built and tested as we proceed. In order to found thus firmly and build thus carefully, it is well to keep in mind that a *sine qua non* of a good tax is efficient administration, hence everything that seriously interferes with such administration is to be avoided. A corollary of this is that not everything should be attempted at once. What not to do and when to do are almost as important as what to do.

We have now had a year's experience under the new law, a year that has brought forth interpretations both good and bad and one that has shown actual fiscal results. But no one has observed any exultations over these fiscal results. Analyze the figures as one may,

[1] It should be stated that this article was written with the expectation that it would appear in January, 1915. It was prepared in November, 1914, and only the facts available at that date have been included by the author.—The Editor.

conjure up all the allowances that can be imagined as probable, and still one strives in vain to become enthusiastic over the meager receipts from individuals.

But while not being a cause of enthusiasm, our experience to date is far from being a cause of pessimism. It has been too brief and conditions have been too abnormal to attach undue importance to it one way or the other. Other experience has shown that no such tax approximates its maximum yield the first year, and it will be recalled that the first collections in this case covered only five-sixths of a full year. In the cases of many annual, semi-annual, and quarterly receipts, a large part of the income for this ten-months period probably fell due January 1, 1914, or later, and, hence will not be returnable till 1915. Furthermore, it must not be forgotten that the law went into effect within less than a month after its passage, that the larger number of its administrators were necessarily inexperienced, that for individual incomes they had no previous records comparable to the usual records which new assessors find when coming into office, and that they were required to cover a wide diversity of incomes of a great number of individuals scattered throughout a vast expanse of territory.

To note all of these considerations is not to deny that receipts were disappointing nor to claim that administration was perfect. Rather it is to indicate the great possibilities of improving administration and the inexpediency of adding too many refinements and complications before such improvements can be made. Considering the inexperience of our legislators in this field of taxation and the political exigencies under which the law was passed, it is fortunate that Congress produced a measure so generally sound in its fundamental principles and chief provisions. It is not at all surprising that the law contains defects nor that its administration is imperfect.

Proposed amendments of the law may perhaps be grouped into three classes: first, those suggesting substantial alterations in the fundamental principles and main provisions; second, those contemplating changes of secondary importance, for the most part involving applications of the main principles; and, third, those concerned mostly with obscurities, oversights, inconsistencies and other textual defects. It must be admitted that this classification is somewhat arbitrary and that a discussion of one class, especially of the first, involves some discussion of the others; nevertheless, there seem to

be sufficient grounds for making the classification if only to emphasize the differences in importance of proposed changes.

As regards such fundamental matters as definition of taxable income, rates, exemptions and methods of collection, it is our opinion that the law is essentially sound as enacted. All of these matters, especially the method of collection and the exemption of $3,000 (or $4,000), have been vigorously attacked and many amendments have been suggested. Inasmuch as we have discussed these matters elsewhere,[2] especially the latter, brief summary statements may be resorted to here. Although the high exemption makes the income tax somewhat of a class tax, it offsets rather than increases existing inequalities; furthermore, the great difficulties of administration inevitably connected with the inauguration of so inclusive a tax justify minimizing, in the beginning, the number of incomes and the complexities of exemption, deduction and differentiation. This makes the tax applicable to a comparatively small number of incomes which are easiest to assess, most able to pay and most fruitful in yield.

There is little doubt that the question of amending this feature will come up in the near future, probably at the next session of Congress. In fact, this question was considered in connection with the recent bill for making up the deficiency in customs receipts but it was rejected, it was said, because such a change would not bring in funds till June 30, 1915; hence, quicker measures were adopted. The reduction which seems most likely to be adopted is one of $1,000, making the exemption $2,000 for single persons and $3,000 for married couples.

The wisdom of such an amendment depends largely upon the efficiency of administrative machinery and the application of the proceeds. Even after such a reduction, the exemption would be too high to allow the tax to affect directly the great mass of voters, hence such a change would probably not be politically impracticable. Nevertheless, it would arouse a great deal of influential opposition that might better be avoided till the tax is more firmly established in popular opinion.

Considerations of administration would not justify many years of delay in making such a reduction and demands for revenue may

[2] "The Income Tax Exemption," *Outlook*, January 31, 1914. "Income Tax Discrimination and Differentiation," *South Atlantic Quarterly*, July, 1914. "The New Income Tax," *American Economic Review*, March, 1914.

more than counterbalance arguments for any postponement but, unless there are such urgent and legitimate demands, one or two more years under the present law would promote ultimate efficiency. It is probably true that a large proportion of incomes near the margins of exemption are just within, rather than just without, the exemption. Even a reduction of $100 or $200 would probably catch a large proportion of these. The present requirement that all incomes of $3,000 or above be returned (reported), even though many of them are exempt under the $4,000 provision, should furnish records that will be of much service if the exemption is lowered. It would greatly add to the completeness and service of such records to require returns of all incomes down to $2,000 for at least two years before reducing the exemption.

The indications are that, under the present exemption, there are a large number of incomes not correctly reported to which the administrative force should devote a great deal of attention for another year or two and thus clean up this area, so to speak, before adding another much larger and more difficult section to the field. Inasmuch as the distribution of incomes is pyramidal in shape, each lowering of the base causes a vast increase in the number included. There is possibly some truth, though not all of the truth, in the contention that those with small incomes are the worst dodgers of the income tax because those with large fortunes would be too conspicuous marks for the attention of the special agents of the treasury department who are and have been for some time on the lookout for such dodgers. At any rate, the additional incomes included by the suggested reduction in the exemption would greatly increase the difficulty of administration which is yet far from perfect.

What would be the fiscal results of such a reduction? A press report just at hand states that 357,598 individuals made returns for the past year. It is not stated whether this means all returns including those with incomes of $3,000 and above but who do not pay taxes because of the $4,000 exemption, or whether it means taxpayers only. If the latter, each of these individuals would pay an increase of $10 per year with the lower exemption (assuming income to be constant); the maximum tax paid by those newly included would be $10 each, those near the lower limit paying scarcely anything (still assuming incomes the same as before the change). If a reduction of $1,000 in the exemption should include as many addi-

tional incomes as the total number already making returns, there would be a probable increase in receipts of about $6,000,000. Of course, it is a mere guess as to how many additional incomes would actually pay the tax.[3]

When the administrative machinery is in shape to collect the additional amount efficiently, then it will be more equitably secured through such a reduction than through some tariff rates that still remain, but if such additional revenue does not mean a lowering of other taxes, or an application to real needs but merely so much more for the congressional pork barrel, then there is no justification for it. Later on, if the main exemption is put very low, it would be well to make some special exemptions for children in certain cases, and possibly also, for insurance payments and other causes of expenditure which it may be thought best to encourage.

In any case, there is a textual ambiguity in the paragraph of the statute which provides for the $3,000 (or $4,000) exemption about which there is no doubt as to the desirability of amendment. As it is, it is uncertain whether a married couple should have a possible total exemption of $4,000 or $7,000; that is, whether, individual income or family income should be taken as the basis of computation. The ruling of the commissioner of internal revenue is that family income is to be taken as the basis of the normal tax, but individual income as the basis of the additional tax. This is admittedly inconsistent. Even the administrative officers have advised clearing up this difficulty.

Many of the principles applicable to the proposals for amending the exemption are also applicable to those relative to changing the rates. It cannot be proved *a priori*, nor from the brief experience of a year, that the existing rates, or any other more or less arbitrary set that might be adopted, form the best possible schedule. But other experience has proved that low rates cause much less fraud and evasion than high rates and there could be no surer way of destroying the usefulness of the tax than to make rates high before the administrators have secured rather complete and accurate information as to the taxable incomes in the United States. Such information should be secured as rapidly as possible and, after that is done, there would

[3] Later press reports showing distributions of 1914 tax returns indicate great uncertainty as to number of new incomes that the suggested return would include.

be an excellent opportunity to make the income tax an equalizer of receipts and expenditures, merely by adjusting the rates from year to year. That is, this would be the case if such a proposal did not imply a budgetary control that seems impossible under our form of government. As it is, there is always the danger that increased revenue possibilities mean increased government extravagances.

As to the method of collection, it is probable that there will be some attempts to substitute information-at-the-source for collection-at-the-source, that is, corporations and other sources, instead of withholding the tax, will inform the government officials of the amount of income paid by them to various individuals. In so far as the recipients of such incomes can be easily located within the United States, such a substitute might be entirely feasible. It would lessen the burden now thrown upon withholding sources and would not deprive the taxpayer of the use of his money for so long a time. Furthermore, it would not throw upon him the risk of solvency of his debtor source from the time the tax is withheld until it is turned over to the government, sometimes a matter of more than a year and in most cases several months. Such a method could not be applied in cases of unregistered bonds and interest coupons nor in other cases where the recipients were without the jurisdiction of the United States. It would probably mean a somewhat greater expense to the government and also some additional evasion and loss. Its adoption seems of somewhat doubtful expediency, though in case of great demand for it, a trial that would be distinctly understood as tentative might be given for a year or two. This would imply more experience with the present method than we have so far had, in order to have a basis for comparison of results.

In this connection, it should be mentioned that many of the forms used in connection with statements of ownership, claims for exemption and returns of income have already been revised, and it is claimed that the burden thrown upon taxpayers and withholding agents will be very much less than heretofore. Furthermore, there is some probability that withholding agents will be allowed a certain compensation for the burdens of collection, say, one per cent of what they collect. This might not be more than fair, though just what differentiations should be made in cases of corporations is not easily determinable. It may be recalled that our tax, as it is, allows corporations to deduct interest on bonds which is not the case in many other countries.

There are two differentiations against corporate incomes under the present law that do not seem wise in all cases, first, the differentiation against the small owners of corporate stock to whose dividends the exemption is not allowed to apply and, secondly, the multiple taxation of holding company receipts. The first involves not only differential treatment of corporate incomes and discouragement to small investors therein but, in practice, it also involves differential treatment of individuals. The second assumes holding companies to be bad *per se*. It is to be admitted that such companies have a good many sins to account for, but the hearings on the recent anti-trust bills and other facts establish a strong presumption in favor of holding companies in some cases. It is entirely probable that Congress will make some modifications as regards railroads and other public service corporations.[4]

English, Prussian and other income-tax laws provide for a differentiation between earned and unearned or funded incomes, laying heavier rates upon the latter. We should adopt this principle soon, but administrative considerations are against adding this additional complication for a year or two. As a matter of fact, we already have a large degree of such differentiation because most funded incomes in this country arise from corporate sources and real estate. Besides the differentiation of the income tax against the former, there is a similar and growing tendency in state and local taxation and it is notorious that a heavier burden has been piled upon real estate with the breaking down of the general property tax. The other large sources of funded incomes are government bonds. A large proportion of federal bonds are held by national banks and as regards these and all others, additional taxes upon their interest would be reflected in higher rates or lower prices for the issuing governments.

Roughly speaking, the law's conception of taxable income in-

[4] The writer cannot wholly agree with the statement of Professor Seligman (*Income Tax*, 2nd ed., p. 695) that requiring corporations to pay the tax on interest of bonds which they had sold under guarantee that buyers would be free from such a tax mulcts the wrong person, that is, the corporation or its stockholders, instead of the bondholders. If that were entirely true, there would have been no point in guaranteeing the bonds to be tax-free. In paying the tax, the corporations or their stockholders are merely paying what they contracted to pay, if necessary, in consideration of a higher price for bonds. No doubt they hoped the lightning would not strike, or that the time should be long delayed, but everybody had seen plenty of warning flashes.

cludes only monetary receipts, those from personal exertions and net gains from capital. Gifts and non-monetary income are excluded. For example, the law disregards home-consumed produce of the farmer or rental value of a residence occupied by the owner, though produce sold for cash or rent actually received or paid in cash are required to be accounted for in income-tax returns. In most cases it is probably most practicable to confine returns to monetary incomes and to those easily and fairly accurately convertible into money equivalents, otherwise it would lead to the impossible task of estimating the money value of all pyschic incomes. It does seem, however, that the rental value of residences is one of the forms of non-monetary income that it would be practicable and desirable to include, though such an amendment to the rulings might well be postponed a year or two for the same reasons that have been mentioned in connection with other refinements.

The ambiguities in the statute relative to insurance companies seem to have been straightened out fairly well in the rulings. The net result now appears to be that the companies will have to pay an income tax on only the excess of premiums over expenses of carrying on the business and payments on policy contracts, plus a tax on interest received on such excess. This means practically no taxation upon capital as opposed to income, and the tax will be even less in some cases by virtue of the exemption of legally required reserves. No amendment seems desirable in this case unless it would be to put in the form of statute what now rests upon rulings. This is of doubtful expediency.

The statute is indefinite and the rulings are inconsistent, as well as unsound in some cases, as to the treatment of appreciation and depreciation of capital assets. The statute requires the inclusion of all income and provides for deduction of losses incurred in trade or arising from fire, storms or shipwreck. Some rulings hold that corporations may adjust the book values of their securities from year to year and return income accordingly. Others hold that all fluctuations in capital assets, whether of corporations or individuals, at least so far as losses are concerned, are not to be considered in returns, unless the results of actual sales, closed transactions. Furthermore, one ruling holds that losses from sales of real estate cannot be deducted unless incurred "in trade," that is in "business," and, that a single transaction does not constitute the carrying on of a business.

Another ruling holds that increases in value of real estate are to be prorated equally among all the years owned and that the part thus apportioned to the years since the tax has been in force is to be returned as the income of the year of sale. The ruling appears to be especially for corporations and will be fair enough for them since they have no yearly exemption and pay no additional tax. But for individuals, it will be important whether such gains are lumped into one year's return or distributed over several years. The problem is undoubtedly a difficult one from a practical standpoint but the present status is susceptible of considerable improvement.

There is considerable weight in the arguments against the injustice of the double taxation involved in taxing all citizens whether residing at home or abroad and also all residents whether citizens or not. Perhaps the easiest way, if all nations would agree to it, would be to tax according to the situs of the source of the income, though a resident undoubtedly receives many benefits from the government where he lives and owes it some duties, even though all sources of his income may be located in other jurisdictions. He also owes some duties to his home government and may put it to great expense as the present European war has forcibly demonstrated in case of our absentee citizens.[5] An equitable distribution of taxes in such cases is one of the unsolved problems of taxation.

The rulings of the commissioner of internal revenue permit nonresident aliens to escape taxes on interest and dividends of domestic corporation securities. The ruling as to dividends is ambiguous, though it probably means that the foreign holder of domestic stocks shall not pay a tax in addition to the one paid by the corporation. As to bonds, the ruling is of doubtful constitutionality, as the legal situation is anomalous. As to both bonds and stocks, the ruling is economically unsound if situs of the tangible source of income is to hold, and it is certainly inconsistent with some provisions of the statute as well as with some of the rulings of the commissioner. Such exemptions have the justification that they attract the investment of foreign capital. They thus discriminate in favor of foreign investors

[5] Incidentally, the European war has been of great aid to income tax officials in ascertaining the names, location and status of citizenship of many Americans abroad. Passports have been applied for as never before, so that present records of Americans abroad are unusually good. Perhaps the number who would have claimed expatriation has been considerably reduced.

and certain domestic corporations, just as do certain laws and winkings of various states and localities within the United States in order to attract capital. This is one of the most insidious and irresistible methods of making local taxation ineffective and is one of the most powerful sources tending toward centralized as opposed to local self-government.

As to desirable textual amendments, as well as some minor matters of principle, we have seen no suggestions so comprehensive and worthy of consideration as those in the recent report of the American Bar Association's Committee on Taxation. We will mention only a few of the criticisms which are well taken. The arrangement of the provisions of the statute is haphazard, references are unnecessarily difficult to make and the lack of system can only be remedied by an entire recasting of the act. Various terms or phrases are ambiguous or are used with several different meanings in different parts of the statute, for example, "deductions," "exemptions," "arising or accruing." Certain enumerations in the law are either more restrictive than intended, or than they should be, especially in view of the fact that they have been interpreted strictly. This applies particularly to the losses and exemptions allowed. For example, the exempting enumeration names mutual building and loan associations, savings banks and other organizations but says nothing of mutual insurance, telephone and many other similar undertakings which it would seem should be classed with those enumerated. The provisions for penalties are incongruous; they consist of one set for the new income tax plus the old set for excise taxes clapped on without much thought of adjustment between the two sets. Many Americans abroad have no place of business in the United States, hence no designated collector to whom to report their incomes. Appeals to the commissioner of internal revenue are provided for in case of grievances; local hearings should be provided for also. The provisions regarding fiduciaries should be modified and gifts of annuities, now seemingly exempt, might properly be classed as income. A number of other criticisms have already been considered above.

To summarize, it may be said that the income tax is sound in its fundamental principles and that only such amendments should be made at present as will not add greatly to administrative difficulties. The administrative force should use all of its endeavors to secure accurate and complete returns for those now legally liable

to the tax before adding a vast number of new incomes by lowering the exemption. Meanwhile those with smaller incomes, say down to $2,000, should be required to make returns (reports) and, in another year or two, the exemption should be lowered. A year or two later differentiation between earned and unearned incomes might be adopted and information-at-the-source given a test as regards certain kinds of income. By that time, or a little later, experience and revenue necessities may indicate desirable changes in the rates of the tax.

That is, there is one class of amendments that should be made in due time, but that time is a little later rather than now. As regards secondary matters involving applications of the law, as for example, what should be included as income, what should be the basis of income exemptions, how should increases in capital value, and other similar matters be treated, the sooner the statute or the rulings are amended properly the better. The same is true of the third class involving textual defects in the statute.

If administration is properly safeguarded and perfected and the tax made as successful as it may be, it is likely to have a great influence upon state and local taxation. It does not seem probable, however, that we shall soon adopt the suggestion to distribute a substantial part of the proceeds among the states, though such a move would probably be wise later if the tax is made as efficient as it may be. One very desirable thing that should not require an amendment is the publishing of detailed statistics of returns. The more accurate these are, the lower the exemptions, and the more differentiations and graduations there are, the more valuable such statistics should be. They should be very useful for the light they would throw upon many problems of modern social legislation, as well as for other economic and political considerations.

The fundamental changes in our economic situation, the ability of our manufacturers to meet foreign competition in the home market and the growing attention to the foreign market, are sure to diminish the relative importance of the protective tariff as a revenue producer, and, in fact, the movement has already begun, though its growth will be gradual rather than sudden. This is certain to bring the income tax into greater prominence. Still further, it is not beyond the pale of possibility that the efficiency propaganda, the prohibition propaganda and other allied and deep-rooted forces are going

to do away with the liquor traffic in the United States sooner than most of us believe. This would do away with the other great source of federal revenues and still further magnify the rôle of the income tax.

In view of our probable needs and of the ability of a good income tax to meet them, perhaps more equitably and adequately than any other important tax which can be used by the federal government, it is extremely important that we lay good foundations and it can not be repeated too often or emphasized too strongly that all considerations of amendments should recognize that efficient administration is the great desideratum.

BRITISH FINANCE AND THE EUROPEAN WAR

By W. M. J. Williams,

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To appreciate the effect of the European War, 1914, on the public finance of Great Britain and Ireland it is necessary to look first of all at the provision made for peace time just before the conflagration burst out. That may be seen from the schedule of the Appropriation Act, 1914, passed on the seventh of August, three days after the declaration of war:

TABLE A

	SUMS NOT EXCEEDING	
	Supply grants	Appropriations in aid
Supplementary Votes for 1913-14. (Navy, Army and Civil Services)	£2,792,053	£212,040
1914-15		
Navy	51,550,000	2,023,261
Army	28,845,000	3,668,200
Army (Ordnance Factories)	40,000	3,337,000
	80,435,000	9,028,461
Civil Services		
Class I. Public Works and Buildings	3,744,769	148,524
Class II. Salaries of Civil Departments	4,723,433	1,125,698
Class III. Law and Justice	4,769,234	872,241
Class IV. Education, Science and Art	20,559,191	28,515
Class V. Foreign and Colonial Services	1,866,977	123,717
Class VI. Non-effective Services	1,091,346	7,900
Class VII. Old-age Pensions, Insurance, etc.	22,129,750	248,500
	58,884,640	2,555,095
Revenue Departments		
P. O., Customs and Excise, etc.	30,967,915	961,098
Naval and Military Operations, etc., Vote of Credit	100,000,000	
Grand Total	£273,079,608	12,756,694

To this sum must be added £36,636,000, for the Consolidated Fund Services. The sums included in the Appropriation Act table are those for which a vote of Parliament is required annually by way of "supply;" the Consolidated Fund Services are those met by the authority of permanent Acts; and in this case of the £36,636,000, some £23,500,000 are for the service of the annual debt, and £9,885,000 payments in aid of local taxation. The remainder of that sum is made up by grants to members of the Royal Family, the salaries of the speaker and judges, and £1,545,000, to the road board. Already, when Parliament was prorogued for 1914 in August, the House of Commons had voted £309,715,608 for the service of the year, a total which included the £100,000,000 on account of the war, and the £36,636,000 for Consolidated Fund services, and the supply services shown in the above table. The £12,756,694, too, under the head of "Appropriations in Aid," was made up of various sums already in the hands of the various departments, which for some years now they have not been required to repay into the treasury at the end of the year, and then the House of Commons votes the estimates at a *net* figure, *i.e.*, less the appropriations-in-aid, which thus get the sanction of the House. Experience leads us to question whether that is a wise practice. For comparison this sum of the "Appropriations in Aid" must be omitted, but it is important to remember that the departments have that sum at command.

This table from the Appropriation Act, 1914, is instructive, as it affords the latest instance of the manner in which the House of Commons endorses all the various "votes" already passed, and gives them at once legal form with authority to the administration to spend within a limit. In this case that limit included a sum of £100 millions unappropriated, save that it was to carry on war, and to this sum we shall recur later in this paper. To afford a view of current British taxation and expenditure apart from war, there now follows the final balance sheet, as proposed and finally accepted in the House of Commons, from June 23 to August.

As a preliminary to what follows a few brief notes on table B are necessary. Beginning with *expenditure* as determining all else in the national outlay and financial measures, we are struck with the high total of expenditures in peace time; and of course it is well known that expenditures have increased rapidly during recent years. Adopting the year 1905–1906 as a standard of comparison, it was the last year for

TABLE B.—GIVING FINAL BALANCE SHEET, 1914–1915, AS PROPOSED BY THE CHANCELLOR OF THE EXCHEQUER

Estimated Revenue, 1914–1915.		
Customs		£35,350,000
Excise		39,650,000
Estate, &c. Duties as in Table V.	£28,000,000	
Add:—Proposed revision of duties (*net*)	770,000	
		28,770,000
Stamps		9,900,000
Land Tax		700,000
House Duty		2,000,000
Income Tax as in Table V.	£45,250,000	
Add:—Proposed increase of *d.* in the £ and other alterations (*net*)	2,871,000	
		48,121,000
Super-Tax as in Table V.	3,300,000	
Add:—Proposed alteration of scale	2,500,000	
		5,800,000
Land Value Duties		725,000
Total Receipts from Taxes		£171,366,000
Postal Service		21,750,000
Telegraph Service		3,100,000
Telephone Service		6,900,000
Crown Lands		530,000
Receipts from Suez Canal Shares and sundry Loans		1,370,000
Miscellaneous		2,130,000
Total Receipts from Non-Tax Revenue		£35,780,000
Total Revenue		£207,146,000
Borrowings to meet Expenditure chargeable against Capital		£5,265,000

Treasury Chambers
23 June, 1914

Estimated Expenditure, 1914–15.		
I. Consolidated Fund Services		
National Debt Services:		
Interest and Management		£16,741,000
Repayment of Capital	£7,759,000	
Deduct:—Proposed reduction of Sinking Fund	1,000,000	
		6,759,000
		23,500,000
Road Improvement Fund		1,545,000
Payments to Local Taxation Accounts, &c.		9,885,000
Other Consolidated Fund Services		1,706,000
Total Consolidated Fund Services		£36,636,000
II. Supply Services		
Army (including Ordnance Factories)		28,885,000
Navy		51,550,000
Civil Services as in Table IV.	£57,066,000	
Add:—Insurance	1,000,000	
Education	586,000	
Public Health and Local Taxation	250,000	
		58,902,000
Customs and Excise, and Inland Revenue Departments, as in Table IV.	4,696,000	
Add:—Valuation	80,000	
Collection of proposed additional duties	45,000	
		4,821,000
Post Office Services as in Table IV.	26,152,000	
Add:—Proposed increase to low-wage employees	75,000	
		26,227,000
Total Supply Services		£170,385,000
Total Expenditure		£207,021,000
Balance		125,000
Total		£207,146,000
Expenditure chargeable against Capital		£5,265,000

E. S. Montagu.

which the Balfour Government was responsible in part, we find that expenditure chargeable against revenue had risen from £150.4 millions to £197.4 millions in 1913–1914, and table B shows that the estimate for 1914–1915 was no less than £207.14 millions. Roughly we get an increase of expenditure since 1905–1906 of £57 millions a year. The total spent on the Consolidated Fund services was less by over £4 millions. That is accounted for principally by the reduction of the sum appropriated to the service of the national debt from £28 to £23½ millions; but on the other hand a grant of £1,394 millions toward the road improvement fund appears as a new charge, according to the budget of 1909–1910; and other changes of a minor character result in this section of the expenditure being less by that £4 millions. On the other heads increase is the order throughout. The cost of the army is slightly higher than that for 1905–1906, though that was much smaller in 1908–1909, and has gone up since. The navy was at £33.3 millions in 1905–1906, but was as low as £31.1 in 1907–1908; it was now placed at £51.55 millions before the war. The civil services were at £28.4 millions in 1905–1906; they are now put at £58.9 millions; but in this case "civil services" must be understood as civil purposes, covering the cost of the civil departments (other than the revenue) as well as grants-in-aid of civil objects. It will suffice to show that the cost of education went up in this interval from £16.396 millions to about £20.2 millions, and meantime new social services have been created, such as old-age pensions, labor exchanges, national insurance, etc. (health and unemployment), to which about £21 millions are now appropriated. In the "revenue" departments the post office takes the leading place, and the cost of working it has grown from £15,978 millions to £26,227 millions; but the postal services always pay their way and add a considerable free sum to the funds at the treasury. This brief summary reveals the direction in which the increased expenditure had been incurred. In the United Kingdom there is much unanimity until the means of meeting expenditure come to be considered. On the whole, though there was much party play, there was not much earnest opposition to the "social welfare" program which has added £21 millions already to annual expenditure, there was no such opposition as that to the growth of the cost of the army and the navy from £52 to £75 millions (principally on the navy) during these nine years—which arises from an unbridgeable difference in ideals apparently. This last fact should

be kept in view when we come to consider the war, and the attitude of the people toward it.

On the *revenue* side we see (table B) that of the total of £207,146 millions, only £171,366 millions were expected from taxes, the rest being drawn from postal and miscellaneous sources. The sum corresponding to the £171,366 millions from taxes was £129,776 millions in 1905–1906, disclosing a growth in revenue from taxes of £41.59 millions. If from table B we adopt the customs and excise as representing the indirect sources of revenue, while the direct sources are represented by the death duties, income-tax, stamps, etc., a very rough division, no doubt, but serviceable, we get a very instructive view of the trend of affairs during the past nine years in question, involving facts, too, which have a very important bearing upon the financing of war costs. So regarded the revenue from taxes in 1905–1906 was drawn, 54.13 per cent from indirect and 45.87 per cent from direct sources, and the revenue for 1914–1915 was planned to yield 43.75 per cent from indirect and 56.25 per cent from direct taxation. As regards these two classes of revenue sources, therefore, there has been a "right about face." This is an aspect of British public finance of immense internal importance, which has attracted attention far beyond the confines of the British Empire. Here is fought perennially the battle, not so much about the question of expenditure, but who shall bear the burden of the demands made upon the Kingdom. It will be recollected that in December, 1905, when the Balfour Government resigned, the United Kingdom was discussing the old question of a general tariff, principally on imports from other countries. The resolution in our public finance witnessed in the period 1905–1906 to 1914–1915 (and it was quite that), by which a rapidly growing expenditure was made a concomitant of a departure in taxation which sought all the money required for reforms and increased outlay from direct sources, in other words from accumulated property. That, therefore, was a direct rejection in practice of the principles of those who adopted from Mr. Chamberlain the return to a revenue based upon the taxation of imports. Equally plain it is that this fact of a departure in taxation to meet new expenditure is of first rate importance at the present critical moment.

To enter minutely into the means by which that increase of £41.59 millions in a total revenue of £171,366 millions was produced during the past nine years is quite impossible here; but some reference

to the steps taken is desirable for several reasons. The returns for postal revenue (including telegraphs and telephones), and of the incomes returned for examination by the inland revenue authorities, will suggest the source of the success, and also the justification of the means. Reference again to table B will remind us that £31.75 millions are estimated to come from the three postal services in 1914–1915, whereas only £21 millions came from those sources in 1905–1906. The gross amount of income received by the authorities in 1905–1906 was £925 millions; the amount became £1,111 millions in 1912–1913, and was larger, unquestionably, the following year. The figures respecting the death duties confirm these indications of growing financial strength, and, moreover, point to the obvious fact of the great accumulation of wealth in a small section of the population. These facts became the basis of the transference of burdens from indirect to direct taxation, and the success of the enterprise, the receipt of revenue covering the largely increased expenditure, and affording means to pay off some £100 millions of debt also, became a justification. The theoretical and practical objections to imposing taxes on commodities were alleged also, but at the same time Mr. Asquith and Mr. Lloyd George, who have been Chancellors of the Exchequer during the interval, have declined to be parties to abolishing the few remaining taxes on necessaries, such as tea and sugar. The taxes which were imposed, on the other hand, have been significant.

The changes in taxation were such that the relief to the taxpayer may be passed with a mere reference; but the increase of expenditure was met necessarily by increases in taxation. On the indirect side (that was in 1909–1910) there was a complete reconstruction of the license duties and of the duties on spirits, beer and tobacco, making the spirit duty £14 9*s* a gallon, the beer duty 8*s* 3*d* a barrel, and tobacco duty 3*s* 8*d* a pound. On the direct side, however, during 1905–1906, 1914–1915, the death duties have been reformed more severely three times from 1908 until now, making the graduation on the total of estates, as well as on specific legacies, much more severe. The income tax, too, has been raised in two ways, *viz.*, by means of the poundage, which is now at 1*s* 2*d*, and by a super-tax on incomes above £2,500, with many devices attending these changes leaving both the main and the super-tax now in a highly graduated, but still in a very patchy and unsatisfactory state. Stamps, too, were made more severe in some cases; but the land value duties—increment, reversion

and unimproved land, with a mineral rights duty also—must be mentioned, but these land duties are now regarded as disappointing in yield, except the mineral rights duty, perhaps, and were fought so fiercely in 1909–1910 and later chiefly on account of the valuation of land which was provided for at the same time, though that was by no means an integral portion of the land duties. The valuation of land, now due for completion sometime during 1915, is feared really because of the great possibilities it may afford an ingenious and reforming Chancellor of the Exchequer. I have paid some attention to the result of these valiantly fought changes in British taxation during the interval in question here, and though they are substantial, in some respects even severe, yet, if equality of sacrifice be aimed at in contribution to the public expenditure, the result errs still in too great a burden placed upon the weaker and poorer citizen. The taxing of some millions of citizens must be a rough process at all times, and hard cases will occur, but the grumbling when directed at our reformed taxes is aimed at the wrong point. The mischief lies not in our taxation, which has an incidence yet making the burden in inverse ratio to the means of the taxpayer, but in our expenditure. Turn to our table II again, and we find an expenditure on the army and navy, together with the £23½ millions for the debt (almost wholly a war debt), of nearly £104 millions a year in peace time. Such a tremendous expenditure on unproductive services must be burdensome, and he who wills the policy must will the taxes, the reasonable and fair taxes to pay for it. It is impossible in this place to demonstrate that recent changes in taxation have been reasonable and fair, but it can be done, and with comparative ease.

The outbreak of war on the fourth of August, 1914, found the United Kingdom of Great Britain and Ireland still in a period of much financial prosperity. The trade of the Kingdom was not quite so elastic and prosperous as that of 1912 and 1913, but yet was at a volume and value which, compared with those of a dozen years earlier, had become the nightmare of those who would load it with a tariff burden, but was the joy of all who candidly reviewed its conquests and health. If we omit the trade in foreign and colonial goods which reached £109 millions in 1913, our over-sea trade in 1905 was £487 millions of imports and £329 millions of exports. These figures for 1913 had become: imports £659 millions, exports £525 millions. They are better understood, and afford a better test,

if we say that in 1905 imports were £11, 6*s*, 9*d* and exports £7, 13*s*, 6*d* per head of the population, but in 1913 £14, 6*s*, 5*d*, and £11, 8*s*, 3*d*, respectively. So that relatively and absolutely a great increase had been secured in British over-sea trade. Again in addition to paying for all the new social services, and for the greatly expanded navy, and for the total growth of expenditure out of current revenue, it can be shown that since 1905 the national debt had been reduced from £755 millions to £649 millions—a reduction by £106 millions to March, 1914. That brought the debt to within £21 millions of what it was at the opening of the South African war. A period of great material prosperity had been experienced in the United Kingdom since 1905; and it was into this scene of prosperity that war, with its horrors and waste, burst in August last. It is evident that the Kingdom was strong financially, but it must be observed also that at the moment Britain's ordinary engagements were at a high figure, and they involved a high rate of taxation to meet the expenditure. On the other hand, it must be admitted that with a navy at £51½ millions a year and more, peace was maintained at a war cost.

As we face the cost of war it must be recollected that even a military success is a financial defect; war devours, war destroys. Not only thousands of the best men who produced the wealth indicated by figures quoted already will be slain, or maimed, by war, but war destroys that wealth at a rate far beyond that of creation. How then shall prosperous Britain meet the cost of this war? How shall our rulers proceed "to foot the bill"?

In table A there is an item—"naval and military expenditure, £100 millions." That, so far (November 7), is the only power to spend on the war which the British government has taken. By that power it has been possible to raise a considerable sum of money, additional to non-war requirements, merely on a "vote of credit," without recourse to ultimate methods of meeting the cost. On that basis according to official statements treasury bills for £80 millions had been issued up to October 31, and altogether bills of that nature to a total of £86 millions were current at that date. That is by no means all that the British government has attempted of a financial nature since the war came upon them. There is the insurance of war risks for shipping; the purchase of a large stock of sugar, fixing the retail price; the declaration of a moratorium to the first week in November; the organization of relief; and several other things, in-

cluding the guaranteeing of sixty per cent of the sums advanced by banks on bills of exchange, and the issue of one pound and ten shilling treasury notes to save the stock of gold; but all these things, intimately connected with the cost of the war, were not measures to meet the direct cost of that war. As this paper is written, just before the House of Commons reassembles, and even before the Prime Minister's speech at the Guildhall, at Lord Mayor's banquet, on the ninth of November, we are necessarily without a hint of the specific proposals on the subject which the government will make. It is a question, indeed, whether the government will table proposals to meet the cost of the war before the new year, or whether it will ask for more power to raise money temporarily; and, looking to the advantage of maintaining the great unanimity of the country for the conduct of the war, there is much to be said for the latter course.

The cost of the war, and how it is to be met is an unavoidable subject nevertheless. When Parliament is sitting we shall hear much of it whether the government will table its proposals or not. The postponement of an unpleasant subject does not solve it, and in this case it is evident that the financing of the war involves the maintenance of commercial health, and should not be postponed long. Meantime pens are busy sketching the position created by the war, and that is likely to be the case until the government's proposals are disclosed. The fact that it is known that the treasury has been consulting at home and in America on kindred matters adds to the keen anticipation of the war budget.

In this position, however, it is open to us to regard the problem to be solved with a clearer atmosphere perhaps than when controversy may be keen regarding special points. First of all there are indications all around that all classes are impressed by a necessity to make sacrifices; the very horrors of war are brought on to many hearths, and there is a very strong consensus of opinion that the fighting is for a just cause; and that, compared, say, with the state of things at the time of the South African War, is a great advantage financially. That, too, helps in the decision first to be made about the provisions required. If the war is of general importance, in the sense that it is fought not for a day, but is crucial to the people and to the country, then the present generation of citizens alone should not be required to shoulder the cost. Such a decision is now watched closely in the United Kingdom. To make it easy to go to war is not

the desire of any responsible citizen. Turkey can afford to go to war every decade, but Turkey is also decadent, while Britain has but recently, as I have shown, made successful efforts to pay the cost of the South African War. In short, a resort to loans only on special and extraordinary occasions has become in Britain almost a guiding principle of our public finance. The immense fleet, now doing such service on the oceans, this year requiring £51½ millions, apart from war, has been paid for on the principle of "pay as we go." The advantage of that is palpable now that war has overtaken us. It will be granted that the present European War is a special and extraordinary occasion. Undertaken for our own interests indirectly but directly for the protection of Belgium and the fulfilment of obligations entered into more than two generations ago, it is obvious that objects beyond those of today are involved, the place, position and prosperity of the country may be involved now and in days to come. It is not likely, therefore, that there will be any difference of opinion that loans should be resorted to for the cost of this war.

But several questions arise at once. Shall this cost be met by loans alone? Or shall a part be met by loan, and a part by taxation? If in part both ways, what proportion by loan, and what by increased taxation? Again what kind of taxation shall be adopted for this purpose? Here unanimity will, probably, fail; but the question will not brook delay; drifting may be as dangerous as a sea mine.

We are met at once by the indefinite sum which may be incurred. Personally I am among those who look for the earlier rather than a later close of the war. It is not probable, even amid the grim resolves of nations, that the blockade of Germany, with its cumulative trials in commerce, and shortness of food, and the dire slaughter of men in tens of thousands, accompanied by a corresponding destruction of wealth, can be sustained long nor permitted to block the return of common sense, and of humanity. Passion consumes itself, and hunger will swallow patriotism. Ambition has ever led to a fall. But at best it is uncertain how long the war will last, and still more uncertain how much it will cost. As for Britain I have shown that at the time of writing the £100 millions of "credit" had been spent almost, and the government will be sure to ask for another £100 millions soon after the House meets on the eleventh of November; but how much more will be required for this work of slaughter! I have shown already that it is advisable to resort both to loans and to taxa-

tion; the former because of the indefinite liability as well as for prudence, the latter for similar reasons, but especially to connect passion with a clear responsibility for action. Still, is it not clear that the indefinite side of the cost must be subject to treatment by loans, and that the most immediate decision will be the amount to be raised by taxes?

The last issue of treasury bills for war purposes, that on November 4, was taken up readily, the market was strong, and the rate was 3⅜ per cent. That brings the issues already made up to £95 millions or more. When the government may proceed to fund these bills, to turn bills into loans, is of less consequence for present purposes; but it is of much importance to note that confidence is strong and unshakable, so that it may be said with assurance that any war loan issued will be taken up with readiness, and probably at about 3½ per cent, on an average. Our consolidated debt is nominally a 2½ investment; but has been kept at about 68½ during the close of the stock exchange since the beginning of August, which is equal to a yield of about £3, 13*s*, 0*d* per cent. The confidence shown in the bank of England, and the ready acceptance of the treasury war bills, have been the result, in part at all events, of a management of public finance on principles suggested already, the paying of current expenditure as we go, the reluctance to trade and to act beyond our means, by resorts to loans. Of course, the great recent prosperity in commercial matters is a very important factor in the confidence which is felt. There will not be any difficulty in raising loans. Rather will it be necessary to be firm in requiring a portion of the cost of the war from those who wage it—by taxation.

Differences of opinion, even among those who agree on financing methods, are easily conceivable when the amount to be raised by taxes is in question. We have seen that the British government has spent £100 millions in three months on war, and probably much more. How much might be necessary for a year? Shall we say £500 millions? It has been computed that Germany and Russia are spending quite £4 millions daily, France not less than £3 millions, and Great Britain, say, £14 millions! Then there are Austria and Hungary, Servia, and Belgium, and now the impecunious Turk insists on entering upon the gamble of war. No fixed proportion of the cost can, therefore, be required from present taxpayers, and consequently we are reduced to the necessity of deciding upon some sum—in

Britain's case, say, £30 millions. If we assume that the war will cost Great Britain at least £650 millions (and that according to some is a very low estimate) that sum, at an average of £3½ per cent will require about £23 millions a year to meet interest, and £7 millions should go toward the sinking fund. Looking toward our needs internally, and though our annual expenditure is at a very high figure, apart from war, yet I do not think that less than £30 millions should be raised by means of war taxes annually. The rest of the cost need be funded in some form, but at present it would not be of much service to discuss what the form of the public securities created should be. Considering the financial confidence and the possibility that the war will come to an early end, it is probable that Britain will secure the money required at an average of 3½ per cent. But now of the way to raise the sum required by taxation!

The account given in this paper of Britain's present financial position, and particularly of recent movements in taxation, with their results, will have prepared the reader for the suggestion to be made on the subject of war taxes. I say war taxes, for it would seem to be necessary, at least for some years, to maintain the taxation for the cost of this war in a separate section of the public accounts. However good the cause, and triumphant the issue, enthusiasm is evanescent, and paying taxes for a just war is a passion rather than a dictate of love. Later on, no doubt, it will be necessary to unite the annual burden in one charge; but experience shows that many will bear the brunt of hailing an enemy and even of fighting him, but paying the bill is *caviare* to the natural man.

If the principles on which the budgets of 1909 and 1910, and later years, have been justified by experience, as they were accepted as just, then the star to guide a Chancellor of the Exchequer in financing this war is in the sky already. Not much should be got from taxes on commodities, and from taxes on necessaries like tea, sugar, and dried fruits, none at all. The only commodities from which some revenue might be got, *viz.*, beer, and spirits, and tobacco, are taxed severely already. Beer in 1913 contributed £13.2 millions, spirits £22.6 and excise licenses £5.5, or a contribution of £41.3 millions from drinks. To this we may add £17.2 millions from tobacco. Nearly £60 millions from these common luxuries, with some £13 millions more from articles of consumption, makes the sum thus raised from forty-six millions of people, mostly poor, a heavy sum, without

adding the weight of the general argument against this form of taxation. Look to table B, and to other sources of revenue beside customs and excise, and it will be seen that death duties and income tax will be called upon to produce the special war revenue required. To invent taxes, acceptable and just taxes, is one of the statesman's greatest difficulties: and as death duties and an income tax are effective, and also just in principle, why should we multiply the forms in which the same man shall be taxed? Death duties are levied when a new possessor comes into acknowledged wealth. An income tax levied carefully draws on a realized income; it is not a stroke in the dark, as a duty, say, on a cup of coffee is, for the incidence of the tax is really unknown. If, as is estimated in 1914, an income tax, with the super-tax, will produce about £54 millions, an extra 7*s* in £ for war, making 1*s* 10*d* in the £ in all, will produce £25 millions more. The remaining £5 millions might be got from realized wealth by a further screw of the death duty, a tax which is yielding well, and justifies itself in several ways. Let me say that I anticipate a strong objection to these suggestions from well known and tried individuals and parties, but am equally sure that they are well founded in principle, and proposed with a single eye to the justice of the matter.

But I want to repeat another suggestion, which will also serve to turn the edge of the objection to such measures. In imposing a special addition to the income tax, opportunity should be taken to improve the assessment and collection, by collecting directly from the taxpayer after a declaration of income, and after a *direct* graduation of the tax from the lowest point upwards, instead of the present cumbrous way of securing a graduation. Of this improvement I am not hopeful at this moment, as the treasury will plead the magnitude of other more pressing tasks. That in addition opportunity should be taken to reduce the amount when an income tax becomes chargeable. It is now £160 and upwards. As it is not wise nor advisable, nor just, to add to the indirect taxes, and even advisable to do away with taxes on articles of food consumption, we should reduce the sum assessable to income tax to a £100 at least, and ultimately to £80. That would enable everybody, except the very poor, to pay according to income, and avoid the common and effective grumble from a millionaire, that some were escaping all taxes. Of course, if it were resolved after all, to mulct users of strong drinks and tobacco in some amount of the war cost, the sums to be

drawn from death duties and income tax would be reduced in proportion.

Is it not obvious that a war budget on these lines would require courage and firmness in the proposer? Experience tells us that they would be necessary, very decidedly; but the present government has not lacked such courage, and on this matter it can appeal to the courage and patriotism which sustained the war. Again, if Pitt, and those of his day, could finance the Napoleonic wars until stock was issued at £46 at least, surely the resources of Britain are such now that it can bear a 1*s* 9*d* or 1*s* 10*d* income tax for a time! We have not yet resisted, even to a denial of luxuries.

On November 17, Mr. Lloyd George, as Chancellor of the Exchequer, introduced a special war budget into the House of Commons. The following are the governing figures, in brief, of his statement; but the foundation figures of his earlier budget will be found slightly altered. Deducting a loss of £11,350,000 on the prospective revenue to the end of March next, caused by the war, he estimates now that that revenue will reach £195,796,000. The expenditure with a slight deduction, will be £206,924,000, but to March, the war expenditure is estimated to reach £328,443,000, thus making a total expenditure for this financial year of £535,367,000—and so showing a deficiency of £339,571,000. Two cautions in reading these figures: (1) the sums for the cost of the war throughout are in addition to the expenditure sanctioned in the ordinary budget of May and June last; and (2) the large sums now estimated for the war are only from August last to the end of March. The estimate for the war for a *year* is £450 millions; but even that is only an estimate. (At this point the Chancellor expresses a hope that at the end of the war there would be "a reduction of armaments." On war, no doubt, but let the psychologist turn prophet and say whether that will be realized on ordinary expenditure.)

The Chancellor of the Exchequer, as anticipated, announced that this situation will be met, in part by added taxation, and in part by a loan amounting to £350 millions, which was very largely subscribed in three days. The *added* taxation proposed (and evidently to be adopted) is *income tax* (and *super-tax* on incomes over £2,500) to be *doubled*, i.e., on earned 1*s* 6*d*, and on unearned incomes 2*s* 6*d* in the £; but for the four months from December 1 to March 31 only *one-third* will be charged. (Within

these limits there will be much graduation.) In a full year this is estimated to add to revenue (£38¾ income and £6 millions super-tax), £44,750,000. Next, failing a better charge on wages and small incomes, too *indirect* additions, *viz.*, 17*s* 3*d* more on each barrel (36 gallons) of *beer*, making 25*s* in all, to enable a beer-seller to charge one halfpenny more for every half pint, and so leave a little profit *also*. (This is much opposed by the beer trade.) That, after a small allowance on licenses, on account of shorter hours of sale, will produce £17,050,000. Then tea is charged 3*s* per pound more, making 8*s*, which it is hoped will bring in an additional £3,200,000. These measures will bring in £15 millions extra to March next, and £65 millions more in a whole year.

The loan for £350 millions issued on November 18 was at 95 per cent, carrying interest at 3½ per cent, redeemable at par in 1925 or 1928, at the option of the treasury. It is thus equal to a trifle over 4 per cent. Firm offers for more than £100 millions had been received before it was issued, and afterwards there was no doubt of a great success, as applications poured in for £100 or multiples of that amount. The only note on the government's proposals possible or desirable here is that though paying up is unpleasant, and there is evidence of difference of opinion on taxation, such is the united and conciliatory spirit of Parliament and the country in face of the war, that the war budget will be passed in a few days, much as it is. But of course, on the whole financial situation much will be said as the war develops, and as the financial year comes to a close with March.

THE RELATION BETWEEN FEDERAL AND STATE TAXATION

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In the past the United States for the most part has collected its revenues from duties on imports, but at periods of unusual need has levied taxes on land, occupations, incomes, deeds and other contracts, and many other subjects. Since the Civil War taxes have also been levied on certain manufactures. The national revenue in the fiscal year 1913 aggregated $724,111,230, exclusive of postal receipts. Of this sum, $318,891,396 came from customs and $344,416,966 from "internal revenue," which is, of course, chiefly from the manufacture and consumption of whisky, beer and tobacco. In the year 1914 a third important source of revenue has been added, namely, the income tax. The states, in their turn, are practically free to tax the persons and property within their borders in any way they may see fit.

In the past the federal government and the states have selected their fields of taxation from the standpoint of opportunity and expediency, rather than according to the methods of logic or the principles of finance. If we may judge the future by the past, each jurisdiction will likely continue, for sometime, to use that field of taxation which best suits its convenience. For that reason I deem it wholly unwise and unnecessary to map out any so-called "proper field"of taxation either for the federal government or for the state governments. In other words, the scope of this paper must be the practical problem of the relation of federal and state taxation, rather than the theoretical problem of the proper field for each jurisdiction. Omitting this purely academic discussion, we still have left the serious problems of assessment and collection—surely a field big enough to engage all our energies. I believe if the problem is examined in this practical way, the investigation will finally lead to coöperation among the present overlapping and conflicting jurisdictions, and ultimately will give us a solution of the problem of the "proper field."

1. Taxation An Interstate Question

Let us consider briefly the situation that now confronts us. More and more the property and the business in a state are becoming interstate in nature. For purposes of illustration, take a few concrete cases. In Chicago there are certain great mail order houses whose sales run up into the millions, probably hundreds of millions of dollars a year. These houses do business in every state in the Union and in foreign countries as well. In reality this gigantic business is interstate. But in actual practice, under our uncoördinated systems of state and federal taxation, this business is assessable only at its domicile in the state of Illinois.

The International Harvester Company, to illustrate further, sells farm machinery not only in the United States but throughout the world. It is incorporated in one state, has factories in four or five other states, has warehouses in many more states, and does business in yet other states of the Union. Hence this great corporation, which is a business unit, is subject to taxation by many competing jurisdictions, not as a business unit, but as so many pieces of tangible property in the competing states. Some states may assess it too high; some too low; others not at all; but in any event there is small likelihood that justice will be done either to the corporation or to the states themselves. This is clearly not a state problem, but a problem concerning a group of states. Yet the states involved do not coöperate in meeting the situation. The same difficult condition obtains in regard to all the great industrial corporations—oil, steel, tobacco, sugar, etc.

If we turn to another field of state taxation—the inheritance tax—we find a great need, and a great lack, of interstate comity. For instance, Mr. A, a resident of Minnesota, dies. His will provides that his property consisting of North Dakota farm mortgages shall pass to a legatee living in Wisconsin. Will this estate be taxed once, twice, or three times? Three times. To quote the department of commerce's *Special Report on Taxation* (December, 1913, p. 9):

> The present method of taxing inheritances in Wisconsin, as in all other states except New York and Massachusetts, namely, subjecting the same property to taxation twice or perhaps three times in as many states is unjust, and there is probably no greater need among the states for uniformity of tax laws than in the taxation of inheritances.

This situation is not merely bad; it is steadily growing worse.

The great field which we technically know as "interstate commerce" I have not mentioned at all. The problem of taxing the railroad has never been solved and never can be solved by any one state acting alone. There are two questions involved here, namely: (1) What is the value of the road? (2) What share of this value is assignable to the state in question? The Pennsylvania road recently built a few miles of road in the state of New York, including one of the finest and most costly terminal stations in the world. The cost of this small section of road was great enough to pay for the construction and equipment of a first class road from New York to San Francisco. But where shall this terminal be assessed? Shall its value be assigned to New York or to all the states reached by the Pennsylvania system? No state has arrived at precision in determining the value of a railroad. Space is lacking to show the various methods used and various results obtained in assessing the same railroad by adjoining states. No state can make an assignment of railroad values to other states, even though it had a proper method of assigning these shares, and even though it had worked out precision in assessment. The thought must occur to every reader at this point that the federal government has now, in the interstate commerce commission, a body adequately equipped to value all railroads with scientific precision, and fully able to assign such values to the individual states. It has taken us ninety years of experimentation in railroad matters to work out this piece of government machinery. Now that we have it, why not use it to its full efficiency?

What is said of railroads applies in the main to such businesses as the telegraph, telephone and express companies; dining and sleeping car companies; private car lines; light, heat, and power companies operating across state lines; and interstate trolley lines.

A National Conference on Taxation was held in Buffalo in 1901, under the auspices of the National Civic Federation, and at this conference the following resolution was unanimously adopted:

> WHEREAS, modern industry has overstepped the bounds of any one state and commercial interests are no longer confined to merely local interests; and
>
> WHEREAS, the problem of taxation cannot be solved without considering the mutual relations of contiguous states, be it
>
> *Resolved*, that this conference recommend to the states the recognition and enforcement of the principles of interstate comity in taxation. These principles require that the same property should not be taxed at the same time

by two state jurisdictions, and to this end that if the title deeds or other paper evidences of the ownership of property, or of any interest in property, are taxed, they shall be taxed at the situs of the property, and not elsewhere. These principles should also be applied to any tax upon the transfer of property in expectation of death, or by will, or under the law regulating the distribution of property in case of intestacy.

Since this resolution was adopted there has been no increase in comity among the states. But there has been an enormous growth in conflicting legislation.

A council of states has been suggested as a proper body to deal with the complex problems just cited. But no such council has yet been formed or is likely soon to be formed. A National Tax Association, devoted to the study of state and local taxation, was formed at Columbus, Ohio, in 1906. A significant step was taken by this latter association at its 1913 meeting, when it was decided to enlarge the scope of the activities of the association to include a study of federal taxation. And at the 1914 meeting of this association in Denver, a large part of the discussion was devoted to the relation between federal and state taxation. It is evident from the foregoing, therefore, that while no solution has been as yet reached, the problem is at last being formulated, and being formulated moreover in its total aspect, as an interstate as well as a local and a national problem.

The formulation of the problem has suggested a few steps towards its solution. It has turned our faces in the direction of coöperation in the place of the present crassly competitive, individualistic method.

2. The Need—Coöperation

The steady increase in federal and state expenditures—outstripping our increase in both wealth and population—makes it high time to seek out some remedy for the growing defects in our tax systems.

The difficulties and failures in our state methods and the useless duplication and waste in both federal and state methods suggests coöperation between state and nation as the next step. The suggestion has already been made that in assessment of interstate commerce corporations the federal government could wisely coöperate with the separate states. Such a step could be taken without involving any constitutional amendments.

The federal government has now added the income tax to its fiscal system. This tax is in all probability to be a permanent feature of our financial system. And the states will, with the further example of Wisconsin's success with a state income tax before their eyes, soon look to this form of tax as offering a practicable remedy for the evils of the personal property tax. The commissioner of internal revenue has all the administrative machinery necessary for determining the size of the individual taxpayer's income. Why should this costly machinery be duplicated? Already the states' tax commissions, boards of equalization, and other administrative machinery are high in cost, and low in efficiency. More simplification and less duplication are needed. And this means more coöperation.

Interstate industrial corporations cannot be justly assessed by the separate states. They can be so assessed by the federal government. Indeed the new federal trades commission will likely perform this very function. Such valuations should be certified to the tax officials of the various states, not merely for purposes of checking up the work of these officials, but for final assessment purposes.

Thus far we have been treading on ground where there is not room for very great differences of opinion. However, if we proceed further with the idea of coöperation we are at once on debatable ground. Should the federal government, for instance, assume the task of assessing personal property, especially those forms of personalty which by their intangibility and mobility defy state laws? Should the federal government assume the duty of assessing all business corporations, thus with one fell stroke cutting the Gordian knot of assessing justly that artificial "person" consisting in part of tangible property, in part of intangible securities? Should the federal government even go so far as to collect the tax in any or all the foregoing cases? Conceivably the tax could be collected in this manner and be distributed to the states on some pre-determined basis.

3. Dangers Real and Fancied

I am sure the critic will interpose some objections at this point. The staunch New Englander will say: "We believe in local self-government. We manage our own affairs. And we resent any outside interference with our cherished historical institutions."

While this sentiment must be respected, yet the real issue is not to be shirked. What is the best tax system? That is the real question. Is our present individualistic, helter skelter system as good as the proposed coöperative system? Local self-government has gone to seed in many places, not omitting New England. The federal government already has prescribed rules for taxing national banks. The states follow these rules. In like manner the federal government could wisely establish rules for, or do the actual work of assessing incomes, interstate commerce, and other forms of business enterprise. In this matter we should be governed by the wider questions of cost and efficiency, rather than by any doctrinaire principles of states' rights. The danger lies on the side of too much decentralization of the assessing power. The *taxing power*—the vital thing—will in any event remain exactly where it is now. Hence the cry to "save the local assessor" is a belated cry. It is an *administrative* reform we seek, not a legislative reform.

4. Future Development

The ideal method of assessing property would have a minimum of arbitrary procedure. Exact mathematical formulas in determining values are desirable but unattainable. But progress must be towards the use of rules which are simple and applicable, and machinery which combines simplicity with low cost and high efficiency. This means no duplication and much coöperation. This means precision and publicity.

Coöperation in assessment and collection of taxes, as outlined in the preceding pages, will lead to a division of the field of taxation, a division based on administrative experience, not on preconceived theory. It will also lead, it is hoped, to a business-like coördination of the federal administrative machinery itself, which is now represented by the following organs and functions: the interstate commerce commission which is now gathering and publishing facts regarding the values of our greater public utilities; the bureau of the census in the department of manufactures; the bureau of statistics in the department of agriculture which collects and publishes statistics concerning crop values; the treasury department which determines the size of incomes and administers the federal income tax.

THE WISCONSIN INCOME TAX

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Prior to 1912, the history of state income taxes in this country failed to disclose a single instance in which the tax had been successful as a revenue producer or had justified itself as a practical or desirable method of taxation. No one can peruse Dr. Kinsman's excellent monograph on the *Income Tax in American Commonwealths* without being struck by the uniformly meagre and unsatisfactory results obtained. Of all the states Virginia has probably had the largest experience with income taxes, yet the amount raised annually in that state for the past twenty years will average far below $100,000. This, too, in spite of the fact that the state has taxed incomes for nearly three-quarters of a century and that during that period nearly every known form of income taxation has been tried.

In the face of these experiences it is somewhat remarkable that the people of Wisconsin should suddenly—and apparently spontaneously—reach the conclusion that a state income tax was necessary and desirable.

History. In 1903 a joint resolution to amend the constitution so as to authorize the levy of an income tax was introduced in the legislature and was passed in both houses with but one dissenting vote. Both political parties favored the amendment in their platforms, but there was no discussion of the subject and it seemed to be taken for granted by the politicians that the theory of income taxation was one of those things which could be safely advocated without any danger of its ever going into actual operation. The first amendment proved abortive owing to a technical defect in the required notice of election. In 1905 the resolution was again introduced and passed with but little debate, the proposed amendment being as follows:

"Taxes may also be imposed on incomes, privileges and occupations, which taxes may be graduated and progressive and reasonable exemptions may be provided."

When the amendment came up for legislative ratification in 1907 there was only one vote against it and, when put to the test of popular vote in 1908, it was carried by the decisive majority of 85,696 to 37,729.

A first draft of a state income tax law was introduced at the legislative session of 1909. A "recess committee" of three senators and four assemblymen was appointed to investigate the subject and report in two years to the next session. This committee held public meetings in all the larger cities of the state and invited discussion, suggestions and criticism from all possible sources. When the bill reached the legislature in 1911, the first real opposition to the measure made itself felt. Upwards of sixty amendments were proposed,—many of them of such an absurd character as to indicate that they were made solely to defeat the law. Toward the end of the session the need of expert assistance was felt and Dr. Kinsman was engaged to redraft the bill while the members of the tax commission rendered valuable assistance.

The Wisconsin income tax law was passed in June of the year 1911 and by its terms was made to apply to all income earned in that year. In the suit which was immediately brought in the state supreme court to test the constitutionality of the law, a great many points were raised against the validity of the act, and the case was argued by lawyers of learning and ability. The court, in its opinion sustaining the law, said:

> By this Act the legislature has, in substance, declared that the state's system of taxation shall be changed from a system of uniform taxation of property (which so far as personal property is concerned has proven a failure) to a system which shall be a combination of two ideas, namely, taxation of persons progressively, according to ability to pay, and taxation of real property uniformly, according to value.

The Wisconsin income tax act is quite lengthy and only a few of its more salient features can be mentioned.

Income. The law begins with the usual futile attempt to define income. For example, it provides that the term "income" shall include rent, interest, wages, dividends, profits and royalties "and all other income (!) of any kind derived from any source whatever except as hereinafter exempted."

The inclusion under the head of income of "the estimated rental of residence property occupied by the owner thereof" has been the cause of much complaint. There seems to be a considerable class

of people whose mental processes are not quite equal to the task of understanding this requirement.

Deductions. The usual deductions for business expenses, losses, dividends, interest paid on indebtedness, interest from exempt bonds, salaries of federal officials, and pensions are allowed. Amounts paid for taxes may also be deducted but only such as are paid upon the property which produced the income. In other words the taxes paid on unproductive property cannot be deducted from gross income. Moneys received from life insurance by persons legally dependent on the deceased are exempt up to $10,000.

Exemptions. The exemptions consist of: $800 for a single person; $1,200 for husband and wife; $200 for each child under eighteen years of age; $200 for each dependent.

These exemptions apply only to individuals who are residents of the state. Non-residents and corporations are required to pay the tax on their whole net income arising from sources within the state.

Rates. The scale of rates for individuals is progressive from one to six per cent, the latter figure being the maximum. While the increase in percentage of rate is accelerated with the progression, the basis of taxable income to which the rate applies advances uniformly by steps of $1,000. This may be illustrated by the following table:

	Taxable Income	Rate, Per cent	Tax	Total Tax	True Rate on Whole Amount, Per cent
1st	$1,000	1	$10.00	$10.00	1.0
2nd	1,000	1¼	12.50	22.50	1.125
3rd	1,000	1½	15.00	37.50	1.25
4th	1,000	1¾	17.50	55.00	1.375
5th	1,000	2	20.00	75.00	1.5
6th	1,000	2½	25.00	100.00	1.6667
7th	1,000	3	30.00	130.00	1.8571
8th	1,000	3½	35.00	165.00	2.0625
9th	1,000	4	40.00	205.00	2.2778
10th	1,000	4½	45.00	250.00	2.5
11th	1,000	5	50.00	300.00	2.7273
12th	1,000	5½	55.00	355.00	2.9582
13th	1,000	6	60.00	415.00	3.1923
15th	1,000	6	60.00	535.00	3.5667
20th	1,000	6	60.00	835.00	4.175

These rates are not as high as they may seem at first glance. For example, although the rate prescribed for the twelfth thousand is 5½ per cent, the amount of tax to be paid on $12,000 would be $355, or 2.9582 per cent of that sum. The point at which the maximum rate is reached corresponds closely with that at which it is attained in a number of foreign countries. For example, the average amount of taxable income at which the maximum rate is reached in Prussia, Saxony, Norway, Sweden, Denmark, England and six of her colonial possessions is $14,390.

The rates for corporations are, at the beginning, practically double those for individuals and the maximum rate of six per cent is reached with the seventh thousand of taxable income. As in the case of individuals, the grades or steps of taxable income are uniform at $1,000 each and the rate advances from 2 per cent to the first $1,000 to 2½ for the second, 3 for the third, 3½ for the fourth, 4 for the fifth, 5 for the sixth and 6 for all above $6,000.

This scale of rates was adopted by the legislature of 1913 as a substitute for a scheme contained in the original law which attempted to adjust the rates according to the proportion which the net income bore to the assessed value of the property used in producing the income. The original plan was found to be impracticable and to some extent inequitable. During the year it was in force it was found that the average rate paid by individuals was 1.96 per cent while the average for corporations was 5.4 per cent. Under the present law a corporation would need to have a taxable income of $30,000 before the last mentioned rate would be reached; but that sum is more than six times the average corporate taxable net income.

Penalties. The severest of the penalties are those prescribed for the violation of the secrecy of returns. They include fines of not less than one hundred nor more than five hundred dollars, imprisonment in the county jail from one to six months and imprisonment in the state prison for not more than two years, in the discretion of the court.

For failure to make returns, or intentionally false or fraudulent returns the penalties are a fine not to exceed five hundred dollars, or imprisonment not to exceed one year, or both in the discretion of the court. In addition authority is given to double the amount of the omitted tax and this is the only penalty which has thus far been enforced. A somewhat curious provision is that which makes

the assessor of incomes liable to a fine of five dollars for every question unanswered on an income tax return. It is hardly necessary to state that no prosecutions have been attempted under this provision of the law.

Administration. The distinguishing feature of the Wisconsin income tax law is the prominence given to the scheme of administration. Of the seventeen closely printed pages which contain the law in pamphlet form about two-thirds are devoted to the methods by which the law is to be administered. It was realized that the failure of all state income taxes in the past was directly traceable to lax methods on the part of local officials, and this danger was sought to be avoided by securing a higher degree of centralization. To this end the administration of the law was placed wholly in the hands of the permanent state tax commission. This commission appointed the writer of this article as "supervisor of the income tax" and the arduous task of arranging all the administrative details of a new and untried system was placed in his hands.

Assessors. In accordance with the provisions of the law assessors of income were appointed by the tax commission. These assessors were selected after a rigid civil service examination, from a large number of applicants, and with special reference to character, fitness and ability. No attention was paid to the political affiliations of the applicants. The appointments were for three years and the salaries ranged from $800 to $3,600. In the populous and wealthy counties in the southern portion of the state one assessor was appointed for each county; but in the more sparsely settled northern portions an assessment district was made to include two or even three counties. The result was that it was found necessary to appoint only thirty-nine income tax assessors for the seventy-two counties in the state. In a few of the more important counties the assessors were permitted to have assistant assessors and necessary clerical assistance. The office of county supervisor of assessment for the general property tax was abolished and the duties of such officers were transferred to the income tax assessors. The Wisconsin income tax assessor, therefore, really serves in a dual capacity—as assessor of income tax and as supervisor of the assessment of the general property tax.

Returns. Six different forms of return are used, separate blanks being provided for (a) individuals, (b) guardians, trustees, execu-

tors, agents, receivers, (c) firms and copartnerships, (d) corporations, (e) farmers and dairymen and (f) wage earners, salaried men and other individuals deriving their income from personal services.

All returns of incomes by *firms* and *individuals* are to be made to the income tax assessors before the first of March in each year. Upon receipt of these returns they are carefully edited and the assessors make an assessment of the tax in each case. If the assessor has reason to believe that a return is erroneous or does not disclose the full amount of income he can increase the amount upon which the tax is based upon giving written notice to the taxpayer. A board of review of three persons is appointed by the tax commission for each district. An appeal lies from the decision of the assessor to the board of review, and then from the board of review to the tax commission. It should be noted, however, that very few such appeals have been taken.

The corporations are assessed directly by the tax commission and are given a right of appeal to the circuit court of Dane County, the county in which the capital of the state is situated.

Information at Source. The Wisconsin tax commission has organized a system of "information at the source" which has been found to work very efficiently and smoothly. When the forms for income tax returns are given out they are accompanied by blanks upon which the taxpayer is required to fill out the name and address of every person to whom a salary or wages to the amount of seven hundred dollars or more has been paid during the year and the amount paid in each case. There is an additional blank for corporations upon which the names and addresses of all stockholders to whom dividends have been paid, together with the amount paid, are given. In like manner claims for interest paid on indebtedness must be accompanied by a statement of the name and address of the person to whom such interest was paid. The information thus obtained by the tax commission is classified and arranged so as to be furnished to the assessors of the respective districts where the recipients of the wages or dividends reside.

This plan, which is not provided for in the law, but has been worked out by the tax commission under its general authority to make needful regulations, operates as a three-fold check. In the first place it will show whether any excessive salaries are being paid to officers of the corporations; in the second place it enables the

commission to test the correctness of the corporate deductions for wages, salaries and dividends paid; and in the third place it calls attention to any omission on the part of individuals to report the full amount received by them as interest, wages or dividends. The deterrent effect of such a system will be at once apparent, and the tax commission thus becomes a sort of clearing house where a vast amount of information centers and is redistributed to the district assessors.

Exemption of Intangibles. It should be emphasized that the Wisconsin income tax law is not an additional tax supplemental to the general property tax, but is a substitute for the tax heretofore levied—or attempted to be levied—upon intangible personal property. Coincident with the passage of the income tax law, the general laws were amended so as to exempt from taxation: (a) Moneys; (b) Stocks and bonds; (c) "All debts due from solvent debtors, whether on account, note, contract, bond, mortgage or other security, or whether such debts are due or to become due."

In order that the owner of *tangible* personal property should not be placed at a disadvantage as compared with the owner of intangibles, the income tax law provides that the receipts for general taxes paid on personal property may be used as cash in paying the income tax. This is called "offsetting." For example, if a person's income tax is, say, $27 and he has paid taxes on personal property to the amount of $15 he can turn in the personal property tax receipt and $12 as full payment of the income tax.

Application of Proceeds. The Wisconsin income tax is not a *state* income tax in the sense that it is applied to *state* purposes. The law provides that the moneys raised by means of the tax shall be apportioned in the proportion of 70 per cent to the local taxing unit (city, village or town) where it was collected; 20 per cent to the county and the remaining 10 per cent to the state. It was thought that the 10 per cent given to the state would about cover the expenses of administration, but the amount actually received was more than double the cost of collection. In the first year of the tax when the expenses were unusually large the total cost of administration (about half of which was incurred in connection with general taxes) was approximately $100,000, while the state's share of the tax actually collected was $220,000.

The amounts of income taxes assessed, both individual and cor-

porate, are certified to the respective county clerks by the tax commission and assessors and again by the county clerks to the city, town and village clerks.

There has been some complaint on the ground that the insertion of the amount of income tax in the tax rolls was a violation of the secrecy required by the law. But the tax rolls must, under the general law, be public records and the amount of income tax paid is far from being a reliable index to one's financial condition. A large income may be derived from dividends, the tax upon which is paid by the corporations at the source, so that the individual income tax may be very small. Even the income of salaried persons may be so reduced by exemptions and deductions that the amount of tax throws no light upon the total amount of gross income received.

Income from Interstate Business. A leading authority on income taxation has suggested that an insuperable obstacle to the success of a state income tax would be the practical impossibility of drawing the line between interstate and intrastate income. Income flows back and forth across state lines so constantly that the question of its situs for purposes of taxation is a very complicated one. The solution of this problem which has been attempted in Wisconsin presents some interesting features and is outlined in the following quotation from the law:

> In determining taxable income, rentals, royalties and gains or profit from the operation of any farm, mine or quarry shall follow the situs of the property from which derived and income from personal service and from land contracts, mortgages, stocks, bonds and securities shall follow the residence of the recipient. With respect to other income, persons engaged in business within and without the state shall be taxed only upon such income as is derived from business transacted and property located within the state, which may be determined by an allocation and separate accounting for such income when made in form and manner prescribed by the tax commission, but otherwise shall be determined in the manner specified in subdivision (e) of subsection 7 of section 1770b of the statutes as far as applicable.

The section of the statutes referred to authorizes a computation by taking the gross business in dollars of the corporation in the state and adding the same to the full value of the property of the corporation located in the state. The sum thus obtained is used as the numerator of a fraction—the denominator of which is to consist of the total gross business in dollars of the corporation both with-

in and without the state added to the full value of the property of the corporation within and without the state. The quotient of the numerator divided by the denominator is a decimal which indicates the proportion of the whole net income which should be apportioned to Wisconsin.

This somewhat complicated and arbitrary method is applied quite frequently, but sometimes leads to grotesque results. For example, a foreign corporation may have a large amount of property in Wisconsin but its business, so far as Wisconsin is concerned, may be carried on at a great loss. Nevertheless, if profits have been large in other states, the application of the above rule might show a considerable income for Wisconsin. Yet on the whole the plan has worked more smoothly than was to be expected. In speaking of interstate corporations the report of the tax commission for 1912 uses the following language:

> The Wisconsin income tax has, on the whole, encountered very little difficulty with this class of taxpayers, and such difficulty as has been encountered can be avoided very largely in subsequent years. . . . The large foreign corporations have dealt quite as fairly with the Wisconsin income tax as any other class of taxpayers. It is just as easy to assess the big interstate corporations under the income tax as it is under the property tax.

Results. As a fiscal measure the Wisconsin income tax has far exceeded the expectation of its most enthusiastic sponsors. When the law went into effect many doleful predictions were made as to the probable yield of the tax. It was freely prophesied that Wisconsin would only duplicate the experiences of other states and that the amount collected would scarcely suffice to pay the cost of collection. Even the friends of the measure did not estimate the probable yield at over one million dollars, and it was realized that the administration of the tax would be attended by many peculiar difficulties in the first year of its operation.

Under these circumstances there was no small surprise when it was found that the income tax levy of the first year (based on income of 1911, collected in 1912) amounted to the very respectable sum of $3,501,161.46. In the second year the amount was $4,091,090.30.

This remarkable showing will perhaps be better appreciated when it is remembered that the Civil War income tax yielded for the first year, 1863, only $2,741,858 or about 78.3 per cent of the first

year's levy in Wisconsin. The amount levied on corporations by the Wisconsin law for the year ending December 31, 1912, was $2,793,605.40, while for the year ending June 30, 1912, the federal excise tax on corporations in Wisconsin amounted to only $575,550.61, or about one-fifth. In this connection it must be remembered that 29 per cent of the amount of net income assessed against corporations under the federal law was from railroads, public utility corporations, insurance companies and national banks, all of which were exempt from the state income tax. In the first year of the federal income tax law the amount collected from individuals in Wisconsin was $220,642 and from corporations $497,785, or a total of $718,427—about one-sixth of the amounts assessed under the state law. Of course the differences in rates and exemptions must be taken into account, but, leaving those elements out of the computation, it would seem evident that the amount of taxable income discovered by the state system in the case of corporations was materially greater than that brought to light by the federal methods.

The amounts actually collected in Wisconsin have very greatly overbalanced the losses occasioned by the exemption of intangible personal property. As the result of a careful and thorough investigation, recently made under the direction of the tax commission, it was found that the decrease in the personal property assessment caused by the exemption of intangibles was $40,077,695 and the corresponding property tax which would have been collected on that sum was $703,589.35, or about one-sixth of the amount of income tax levied. It should be stated, however, in fairness, that the amount of income tax *collected* is much less than the amount *levied*. This is due to the privilege of "offsetting" personal property tax receipts. It is estimated by the tax commission that, for the year 1912, about 37 per cent of the whole income tax was paid by personal property tax receipts.

The *average* rate of taxation upon individuals and firms was 1.96 per cent and upon corporations 5.4 per cent. About 40 per cent of the whole tax is assessed in Milwaukee County and 80 per cent is assessed in the seventeen counties which contain the larger cities.

The total cost of administering the income tax for the year 1912 was $92,480.29 and this included payment for the salaries and expenses of the income tax assessors in connection with the assessment of the general property tax.

But the success of any tax law should not be measured wholly by its financial results. If the scheme of taxation proposed does not commend itself to the average citizen as just and equitable, it can hardly be expected to be permanent in a country where the power of making and unmaking the laws is vested in the people. Of all fiscal measures an income tax law is one of the most direct in its application and the first enforcement of such a law is apt to evoke violent opposition from those most affected by it. In this respect Wisconsin was no exception. In the first year of the operation of the law a state election was held and the question of income tax or no income tax was the predominant and almost sole issue of the campaign. Both political parties were split into factions, but the Republican candidate for governor espoused and defended the income tax while his Democratic opponent waged a bitter war against it. The vote at the polls would seem to indicate that public sentiment favored the tax. At the present writing another campaign is in progress with the same Democratic candidate for governor in the field but he has taken pains to announce publicly that he will not oppose the income tax. The consensus of public opinion throughout the state seems to be that "the income tax has come to stay," and that, however objectionable in some respects, it is a distinct improvement upon the personal property tax which it has supplanted.

Objections and Criticisms. It is too much to expect that a law drawn by men who had no practical acquaintance with the subject and but little theoretical knowledge should be complete and perfect in all its details. Such a law can only approximate perfection after years of careful adjustment and re-shaping to make it conform to the human equation which, after all, is bound to be the controlling factor in its success or failure.

Some of the objections most loudly urged against the state income tax are precisely those which deserve the least consideration. For example, the assertion that the law is inquisitorial may be answered by saying that it is not nearly as inquisitorial as the personal property tax would have been if it had been strictly enforced. The statement so often made that it "makes a nation of liars" can easily be shown to be false. Any person who, like the writer, has had occasion to review and test the correctness of thousands of income tax returns will be impressed by the evident truthfulness and honesty with which the vast majority of such returns have been prepared.

In one thousand returns which were defective or erroneous it was found that more than one-third contained errors which had the effect of *increasing* the tax. Of the remainder the very great majority were erroneous through obvious ignorance or misunderstanding of the provisions of the law. The number in which there was any evidence of a deliberate attempt to defraud the law was very small—safely under five per cent.

The objection that the law taxes thrift is equally applicable to all tax measures. The predictions that the enforcement of the law would drive capital from the state have not proved correct to any appreciable extent. But there are objections to the law in its present form which are sufficiently serious to call for careful consideration at the hands of the legislature. For example, the double rate on corporations does not appear to be justified by the comparatively slight advantages which accrue from incorporation. The provisions for appeals are not satisfactory to the public as there is an impression that the tax commission is, so to speak, "judge of its own cause," and is disposed to favor the state as against the taxpayer in doubtful cases. The rule for the taxation of income from interstate business is somewhat crude and does not always work out fairly. The inclusion under the head of income of gifts and inheritances is hardly scientific, and the same may be said of income which had accrued and become payable before the law went into effect and was therefore more in the nature of capital. The whole question of wasting assets, particularly in the case of mines, awaits some more satisfactory solution than is offered by the Wisconsin law.

These, and other minor points which might be mentioned, are some of the questions with which the legislature will have to deal if the Wisconsin law is to be made a model for other states.

THE WISCONSIN INCOME TAX

By Thomas E. Lyons,
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During the last half century the trend of opinion on the subject of taxation has strongly set in the direction of the faculty tax or contribution to the support of government in proportion to ability to pay. In theory at least this principle of taxation is both attractive and convincing and it has received the endorsement of publicists, economists and students of taxation generally. Under normal conditions all taxes are paid out of income and a system, which exacts payment from those who have the means to pay, relieves those who have not, taxes moderate income lightly and large income more heavily, makes strong appeal for popular favor and has much to commend it on the economic side. For nearly a hundred years the income tax principle has been utilized in European countries and in one form or another now constitutes an important element in the fiscal system of every advanced country in Europe except France. Its highest development is found in England and Germany, where the annual yield aggregates over $200,000,000 in each country.

Prior to 1913, the income tax had never been generally adopted in this country. It was resorted to by several of the colonies prior to the adoption of the constitution, but not in its modern form. The Civil War income tax contributed $372,000,000 to the general goverement from its adoption in 1862 until its repeal ten years later. A general income tax act was enacted by Congress in 1894, which the supreme court held to be in conflict with the federal constitution as it then stood. The adoption of the sixteenth amendment expressly authorizing the raising of revenue by this means, followed by the federal act of 1913, is therefore the first step toward a permanent adoption of income taxation in this country.

In the meantime about twenty states had experimented with an income tax in one form or another. Several of the Atlantic and Southern states adopted this means of raising revenue about the middle of the last century and extensive use was made of the system by the states of the Confederacy during the civil war period. Few,

if any, of these enactments, however, provided for the taxation of all forms of income. As a rule they were confined to the taxation of income derived from sources not otherwise taxed, such as salaries, fees, commissions and profits derived from the purchase and sale of property.

The difficulty of allocating income derived from interstate commerce and the uncertainty as to whether any part of such income could be taxed by the individual states, operated against the general adoption of the system. Moreover, the states which did adopt an income tax committed the administration to local taxing officers, and the result was a lax enforcement and very meager yield. These unsatisfactory results led to a widespread feeling that income taxation was not practicable for the separate states and prevented the adoption of the system for many years.

In the meantime the subject of taxation was becoming more and more important. With the increase in urban population and the growing complexity of social and business conditions, taxes naturally increased. It was found that the property tax system, however well suited to primitive conditions and agricultural communities, no longer sufficed. It abounded in inequality and discrimination in the assessment of all classes of property and failed outright as to some. While the tax upon real estate absorbed from 10 to 20 per cent of the income therefrom, the property tax afforded no means of reaching excess earnings, or to secure any contribution from income derived from other than property sources. Wisconsin in common with many other states shared this experience. While it was estimated that the value of personal property in the state was equal to that of real estate, only about 18 per cent of the public revenue was derived from that source, and no serious attempt was made to reach intangible property at all. In 1909 six of the seventy-one counties of the state made no assessment of moneys and credits. A substitute for the broken down personal property tax was therefore eagerly sought for and students of the subject naturally turned to the income tax as the solution.

In 1908 an amendment to the constitution was adopted authorizing the taxation of incomes at graduated and progressive rates. The legislature of 1909 appointed an interim committee to study the subject and report to the legislature of 1911, and the present income tax law is the result. The act provided for the assessment o all in-

comes received during the year 1911, and the first assessment was made in 1912. We are now closing our third assessment under the law.

Under the federal constitution and decisions the legislature had the option to tax all income received by residents of Wisconsin, and all income received by non-residents from property located or business transacted in this state. Obviously the adoption of this program would involve certain inconsistencies. If residents of Wisconsin were to be taxed upon income from property located and business transacted without the state, consistency would require that income received by non-residents from property located and business transacted in Wisconsin should be exempt. If adjoining states should adopt a similar system, residents of this state deriving income from business and property in these states would be subject to a double tax. To avoid these difficulties the legislature finally decided to limit the tax to income derived from persons, property and business having an actual or constructive situs in this state. Accordingly residents of Wisconsin are taxable on all compensation for personal services received by them, whether in the form of salaries, commissions or other earnings, and upon all dividends from corporate stocks and interest on securities owned by them, regardless of the place of investment. The legal situs of such property and the income therefrom follow the residence of the owner or recipient. On the other hand income from fixed property, such as royalties or rents and profits from definitely localized business, is assigned to the district in which such property is located or business transacted. It follows that income of this latter character derived from property located or business transacted without the state is not subject to the Wisconsin tax

Substantially all forms of income flowing from these sources are subject to the tax. Public service companies, such as steam and street railways, telephone and telegraph companies, which are assessed by the tax commission and pay taxes directly into the state treasury, are exempt for the reason that the element of earnings is taken into account in the assessment of these companies under the property tax. Moreover, the property of these companies is declared to be personalty for the purpose of taxation and if assessed they would be permitted to offset their property tax against the income tax levied against them under a provision of the statute hereinafter

explained. The usual exemptions are extended to religious, charitable and educational institutions.

The basis of the tax is net income, ascertained by deducting from the gross income of the taxpayer for the year covered by the return the ordinary expenses incurred in producing it. This includes the cost of labor, material and goods, taxes, insurance, interest, depreciation and repairs. The rate is progressive in each case, beginning at 1 per cent on the first $1,000 of taxable income in the case of individuals and progressing by easy stages of one-quarter of 1 per cent per $1,000 up to $5,000, and one-half of 1 per cent on each additional $1,000 until the maximum 6 per cent rate is reached. All income above $11,000 in the case of individuals, and above $6,000 in the case of corporations is taxed at the uniform rate of 6 per cent. The corporation rate is double the rate of individuals until the maximum is reached. Under this method a taxpayer of moderate means with a taxable income of $1,000 is required to pay a tax of only ten dollars, while his more prosperous neighbor receiving an income of $10,000 pays not merely ten times as much or $100, but twenty-five times as much or $250. In like manner a corporation having a taxable income of $1,000 is required to pay only twenty dollars tax, whereas its larger and more prosperous rival, with a taxable income of $50,000, is required to pay not fifty times as much, or $1,000 but one hundred and forty-two times as much, or $2,840. The widow's mite still involves more sacrifice than the rich man's largess for "he pays out of his abundance but she out of her want."

As corporations pay the tax on their entire net income, provision is made for deducting the dividends received therefrom to avoid double taxation. The same is true of profits received from a partnership whose income has been assessed or is taxable under the law. The tax is computed on the entire net income before distributing it in the form of dividends or profits. Approximately two-thirds of the total tax levied under the Wisconsin law is derived from corporations, and one-twentieth from partnerships, indicating the extent to which it is possible to collect at the source. Another and very effective provision of the law is that of requiring corporations to report the names of employees who are paid a compensation exceeding $700 per year as a condition of deducting that item of expense. Similar provision is made in the case of payment of interest, dividends and rent. These lists of payments are reported to the tax commission

in connection with the return of the corporate income and are then distributed to district assessors as a check against the returns made to them by the individuals receiving the payments. This provision is believed to be less complicated and quite as effective as the method of withholding the tax prescribed by the federal income tax act.

An exemption of $800 is allowed individuals without family; $1,200 for husband and wife; and $200 additional for each child under eighteen years of age or other person dependent on the taxpayer for support. An ordinary family of five has therefore an exemption of $1,800. Compared with the average income of the wage-earning class, these exemptions amply cover the cost of subsistence and are much more liberal than the exemptions allowed in European countries. Considering that all expenses of producing the income are deducted before the exemptions are taken out, it is plain that no poor person is required to pay an income tax under the Wisconsin law. An individual or family receiving a net income exceeding these exemptions is not poor in either the popular or economic sense. Only two per cent of the total population, or about one family in ten, is subject to the tax. As corporations have no physical needs and are not subject to the infirmities of natural persons, no exemptions are allowed to them. Moreover, in arriving at the taxable income of corporations the salaries of officers, as well as the wages of employees, are deducted. Their taxable income therefore represents profits from business and property only, exclusive of personal earnings, whereas natural persons are required to include income from personal earnings in their reports.

The tax is primarily for the support of local government. Seventy per cent of the proceeds is paid to the town, city or village in which the income is produced, 20 per cent to the county comprising the district, and 10 per cent to the state. It is not therefore an additional tax but merely another means of raising needed revenue for the support of local government. In preparing their annual budgets local officers are required by law to take intc account the revenues available from other sources than the property tax, including the amount of income tax levied in and for each district. To the extent that a given community is required to pay an income tax therefore, it is relieved from the payment of a property tax. Bearing in mind that at least one-half of the income tax levied is derived from sources which escaped altogether under the property tax, it is clear that it

does not operate as an additional burden. Incidentally we may add that the 10 per cent of the net proceeds of the income tax payable to the state, after allowing the personal property offset, not only covers the cost of administration but defrays the entire expense of all the activities of the tax commission, including the salaries and xpenses of assessors of incomes. The average cost of the Wisconsin income tax is about 1.2 per cent of the amount assessed, making it one of the cheapest taxes known.

Perhaps the most distinctive feature of the Wisconsin law is its centralized administration. The state tax commission is required to assess the incomes of all corporations and to prescribe rules and forms for the assessment of the incomes of individuals and partnerships. The commission is authorized to divide the state into assessment districts and to appoint subordinates to assess the incomes of individuals and partnerships in their respective districts. The state has been divided into forty-one districts and an assessor of incomes appointed for each district at a salary fixed by the commission. These appointments are made under civil service rules, for a term of three years, and the assessors work under the direction of the commission and are subject to removal from office for adequate cause. They are wholly free from local or partisan influence and have proved a very efficient force.

The agitation for an income tax in Wisconsin grew out of dissatisfaction with the personal property tax which it was originally designed to replace. Accordingly substantial exemptions of personal property were made by the law which created the income tax. All moneys and credits, household furniture, farm machinery and numerous minor classes of personal property were exempted by that act. As the law was untried and its validity certain to be questioned in court, it was deemed prudent to retain the tax on tangible personal property until the effectiveness of the income tax could be more fully tested. Provision was accordingly made for the deduction of personal property tax paid by any person for a given year from the income tax levied against him for the same year. Owners of taxable personal property, therefore, pay no income tax unless it exceeds the amount of their personal property taxes.

The first assessment under the income tax law for the entire state resulted in a tax of $3,501,000, and the second assessment in a tax of $4,094,000. The assessment for the current year just com-

pleted shows a tax of $4,140,000. These figures fairly represent the revenue producing power of the income tax, but the net yield is materially reduced by the offset provision referred to. Approximately one-half of the amount of income tax assessed is subject to offset by the personal property tax. The net yield of the 1913 income tax based on 1912 income, excluding disputed items in litigation, was $1,935,846, and the same proportion of the assessment of the current year is likely to be wiped out by the personal property offset. As the tax on personal property is required to be paid in full in any event, and only the difference between that amount and the income tax is collected, the net proceeds mentioned fairly represent the amount of revenue derived under the Wisconsin law from sources not reached by the property tax at all.

The conventional criticism of a state income tax has long been that it is all right in theory but will not work in practice. The experience of all the states which experimented with the system prior to 1911 could well be cited to sustain this claim. Obviously if the criticism is well founded it constitutes a fatal objection to a state income tax. In last analysis, a fiscal system must be tested by results. The important question, therefore, is, how has the Wisconsin income tax law actually operated in practice? The first and most obvious test of a tax system is its power to produce revenue and, as already shown, the Wisconsin law has fairly met this test. The average annual assessment for the three years during which it has been in operation is approximately $4,000,000. The total yield of the Civil War income tax during the first year of its operation was less than $3,000,000. The highest tax ever collected in any other state in a single year under an income tax was less than $200,000. The income tax assessed in the county of Milwaukee alone in 1913 was $1,825,024. Compared with the results of other state income taxes, the Wisconsin law is facile princeps as a revenue producer.

Experience thus far has shown that the principal yield of the income tax comes from the centers of business and population. It is therefore primarily an urban tax. Milwaukee city alone contributes over 40 per cent of the taxable income assessed, and fifteen counties containing the principal cities furnish 75 per cent of the total for the state. Less than one-half of one per cent of the population in strictly rural districts is subject to the tax, and the yield is comparatively insignificant. The limited cash profits from agriculture,

and the large exemptions, practically exclude farmers from the operation of the law. In several rural districts the yield is not sufficient to make up for the personal tax on moneys and credits and other property exempted by the act. Inasmuch, however, as the revenue derived is mainly distributed to the districts which produced the income no serious injustice results. To the district which has of income is given of taxes. An amendment to the law increasing the proportion distributed to state and county would tend to correct this defect.

The income tax is also primarily a tax upon the rich and well-to-do. Analysis of the assessments of a selected group of 382 persons subject to the tax in the city of Milwaukee for the year 1912 showed an aggregate income tax of $176,808. Of this number, 88 persons, whose taxable incomes were less than $1,000 each, paid only $487 aggregate tax. One hundred thirty-nine (139) persons belonging to the group, whose taxable incomes exceeded $10,000, paid $168,822 income tax, or 95 per cent of the total. The total income tax assessed against 3,172 individuals in Dane County for the current year is $67,050. Of the number assessed 2,150 had a taxable income of less than $1,000 each, and their aggregate tax was only $8,496.80, or about one-eighth of the total, whereas six persons, having an income of over $15,000 each, will pay $23,202 income tax, or more than one-third of the total tax assessed. In the city of Sheboygan five of the 1,272 persons assessed pay more than one-fifth of the total tax.

A comparison of the personal property tax with the income tax according to the amount of income shows that the average person whose income is less than $1,000 has four dollars more personal property tax than income tax whereas those having a taxable income between $5,000 and $10,000 pay an average of twenty-two dollars more income tax than personal property tax. More striking still, the average taxpayer having an income in excess of $10,000 in the selected group first mentioned pays $659 more income tax than personal property tax.

An analysis of assessments by occupation yields equally interesting results. Twenty-five lawyers included in the selected group paid a personal property tax of $4,237 in 1911 as against an income tax of $12,360 for 1912. Twenty-one other professional men who were assessed for $9,137 income tax paid a personal property tax of

$811. Forty brokers, salesmen and solicitors paid an income tax of $13,974 in 1912 as against a property tax of $1,803 in 1911. Seventeen capitalists, whose personal property tax was $1,448, paid an income tax of $13,233 in 1912. These figures clearly show the unequal operation of the personal property tax and the greater efficiency of the income tax in securing revenue from those who are best able to bear the burden. Obviously, measured by ability to pay, the person having a small taxable income was overcharged under the personal property tax, and the person having a large income did not contribute his share.

Perhaps the most important result of the income tax law in this state is its effect upon the administration of the property tax. As predicted by Professor Adams before the law was enacted its by-products are more valuable than its direct results. The assessors of incomes above referred to supervise the administration of the property tax and their services in that respect have been no less important than in assessing incomes. Selected by a merit test, free from local influence, constantly employed and therefore becoming increasingly efficient, they have made marked improvement in the administration of the property tax. While increased valuation does not necessarily mean good assessment, it strongly points in that direction. After ten years of effort on the part of the tax commission to secure some approach to a legal assessment of property, the average ratio of assessed to true value was less than 65 per cent. The first year's experience under assessors of incomes increased this ratio to 73 per cent, and the second year to 81½ per cent. Complete returns have not yet been received from all districts of the state for the current year, but reports from assessors of incomes indicate that many districts have been assessed on a substantially full value basis, and that the average ratio of assessed to true value for the state will not fall materially short of 85 per cent. This result may be ascribed in large measure to the income tax law with its accompanying exemption of moneys and credits and the provisions for the appointment of assessors of incomes.

It is often urged that the income tax is inquisitorial, but so is every tax when properly administered. Under the property tax law the assessor may examine the taxpayer and call his neighbors to testify as to the amount and value of his property. He may even disregard the taxpayer's sworn statement and increase the assessment

according to his own judgment. Every community will continue to raise revenue by taxation in one form or another, and as the burden increases will insist upon the necessary information to measure the amount. Concealment and evasion will not permanently avail. The choice, therefore, lies between a system which reaches all sources of revenue, automatically adapts itself to changing conditions, takes note of the productiveness of different classes of property and graduates the burden accordingly, and a partial, rigid, mechanical system with a long train of failure and injustice in its wake.

Objection is often made that no state can tax income derived from interstate commerce, and numerous expressions are found in the books to that effect. But the courts have repeatedly held that any state may tax property engaged in interstate commerce if a reasonable basis of apportionment be used to determine the proper proportion assignable to that state. Why should not the same rule be adopted in the case of income derived from interstate commerce? If Wisconsin cannot tax income from this source no other state can do so, and the result is a legal no-man's-land where vast and prosperous organizations may operate, relieved from the burdens which others are compelled to bear. All agree that neither property nor income from interstate commerce should be singled out for invidious discrimination, but that is a very different thing from requiring it to bear its just share of the public burden. If there is any doubt or uncertainty in the law in this respect, why should not Congress, which has supreme control of the subject, authorize the several states to tax either property or income from interstate commerce according to any system of taxation applicable to other property and business within their borders, under reasonable rules of apportionment. It has already made such provision in the case of national banks. Such a declaration on the part of Congress would solve many difficulties and remove many doubts. With this obstacle out of the way, it is believed that income taxation may be resorted to by any state with advantage to its own revenue and greater equality in the distribution of public burdens among its citizens.

THE INHERITANCE TAX

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In this brief discussion of some salient principles and provisions of the inheritance tax it seems unnecessary to review its history or growth, except to say that until the adoption of the law of 1885 in New York, little consideration was given to it in this country. Since then, more especially in the last dozen years, the inheritance or transfer tax has been adopted into the taxing system of one state after another, until at the present time it is in force in about four-fifths of the states of the Union.

"Taxes" may be divided into two general classes: (1) Those which constitute a contribution by the taxpayer out of his substance to the support of government, such as most of our ordinary taxes, licenses and fees, especially the so-called "general property tax;" (2) Those which are merely a payment to the government of a portion of the social product, such as the royalty reserved upon mines and minerals, rental value of franchises, the proposed single land tax. The latter so-called taxes are no burden, being merely payment for value received.

The inheritance tax belongs to the first class, but is probably the least burdensome of that class of taxes; for, as prevailing in the several states, the rate is usually very moderate; it is paid out of property just acquired by the taxpayer,—usually property that has not caused the taxpayer any great effort in its acquisition. Its popularity is testified to by the fact of its rapid adoption by state after state in recent years.

The Wisconsin law is modeled upon the New York law as it existed prior to 1911 and is fairly typical of the laws prevailing in most of the states. Its salient features may be briefly summarized as follows:

The tax is in legal theory upon the transfer or the right to receive the property of the decedent, not upon the property itself. But the tax is measured by the amount of property passing to the beneficiary, and is made a lien upon such property, and a personal charge

against the executor and the beneficiary, until paid. A tax is imposed not only upon the transfer of property by will or intestate law, but also upon any transfer by deed, grant, bargain, sale or gift made in contemplation of death of the grantor, vendor or donor, or intended to take effect in possession or enjoyment at or after such death.

The primary rate is 1 per cent when the transfer is to husband, wife, children, father or mother; 1½ per cent to uncles, aunts, nieces and nephews; 3, 4 and 5 per cent to relatives further removed, according to degree of kindred; and 5 per cent to strangers in blood, corporations and other organizations, except municipal, religious, charitable and educational corporations within the state, which are exempt.

The above primary rates apply to the first $25,000 received by the beneficiary. The next $25,000 bears a rate of 1½ times the primary rate; the next $50,000 twice the primary rate; the next $400,000, 2½ times the primary rate; and all above $500,000, 3 times the primary rate. Thus it will be seen that a distant relative or a stranger in blood will pay 15 per cent upon the excess over a half million dollars that he may receive.

An exemption from the tax is allowed of $10,000 to a widow; $2,000 to each of the other relatives named in the first section; $500 to those in the second section; and lesser amounts to more distant relatives, down to $100 to those in the fifth class. These exemptions are taken out of the first $25,000.

The inheritance tax is imposed and collected during, and as a part of, the settlement of estates in the county or probate courts, and is usually paid by the executor and charged against the share which he is required to pay over to each beneficiary upon such settlement. This tax goes usually to the state for state purposes, except such small amount thereof as may be necessary to cover the expenses connected with its administration in court.

The above outline summarizes the law sufficiently for the general reader. It will be seen that the rate is light in the smaller estates and to near relatives, becoming heavier as the estate increases in size, and the relationship of the beneficiary becomes more distant; but becoming at no time exorbitant or particularly burdensome. In the smaller estates where the deceased leaves a widow and several children, the exemptions commonly exceed the value of the estate, no tax being paid. Ordinarily the procedure is simple and inexpensive,

and the tax is paid promptly by the executor or administrator of the estate out of ready money or other property in his hands.

However, a relatively small number of estates involve questions and situations that have caused much discussion, some litigation, and an amount of criticism that has assumed more heat, it is thought, than the facts warranted. If a decedent lived in one state and owned property in another state, to which state should the tax be paid? Quite early in the administration of the law it was decided that if the property is real estate, the tax is due to the state where the land is located. This rule has been affirmed repeatedly and has received general acquiescence.

Where, however, the foreign property is personal, it was early held to follow the residence of the owner and to be taxable in the state where the deceased had his domicile. But numerous states held that the property was taxable in the state where located, and in such cases the same property was subjected to double taxation. After eliminating all real estate, and all personal property located in the state of the owner's domicile, the property so subjected to double taxation is relatively unimportant in amount, and not sufficient in any sense to serve as a basis for condemnation of the law. Nevertheless, possible double or multiple taxation is a problem of sufficient moment to demand the careful attention of students and legislators.

The most common instances of such taxation occur in relation to corporate stocks and securities. An actual instance in point was where railroad stock of deceased was subject to the tax of Wisconsin because this state was his residence; in Illinois because the stock was physically in that state, being kept in a safety deposit box in Chicago; and in Utah because the railroad company is a Utah corporation.

Such cases are rare. The inheritance tax laws of most of the states are relatively new, and more or less imperfect. We may confidently expect that through state comity and the ordinary human sense of fairness such injustices will gradually be amended out of the laws.

An effort was made in New York to take a step in avoidance of such double taxation, by the exempting from taxation of stocks of New York corporations when left by a non-resident decedent, on the theory that corporate stocks are personal property and should be taxed only at the domicile of the decedent. The Wisconsin theory, and probably that of other western states, is that the stock is merely

the paper representative of the actual property and that all taxes, including the inheritance tax, should be imposed and collected at the place of location of the property. The property must be protected by, and at the expense of, the state where located. The rights of parties concerning such property must be enforced in the courts of that state. The people of the locality usually furnish the custom or business that supports the property and gives it value. Hence it is the locality that needs the tax for its public purposes and is equitably entitled thereto. New York, of course, finds its theory in full accord with its financial interests, for it is probable that only a relatively small amount of its domestic corporate stock is held without the state, while residents of New York are holders of immense quantities of foreign stock, the transfer tax upon which that state would hesitate to surrender.

The New York argument is based chiefly upon the proposition that the tax is not upon the property but upon the transfer. While this is the practically unanimous holding of the courts, and is the law, yet as an economic truth I submit that the proposition is open to serious doubt. As an economic proposition it is probably true that the inheritance tax is a tax upon the property, burdening the property to the extent of the tax, and reducing its market value to that extent, as much so as a direct tax of like amount and frequency. Dealers in securities, investors and promoters object strenuously to drastic inheritance tax laws, alleging that they tend to depreciate the selling value of securities, and make them undesirable as investments. This could not be true if the tax were not a burden upon the property itself.

The recent amendment to the Wisconsin law (section 1087–11, subsections 3–8, statutes of 1913) is intended as an important step toward the elimination of double taxation, without surrendering the right to tax the transfer of securities representing Wisconsin corporate property. It provides in substance that the stocks, bonds and other securities of a non-resident decedent shall be subject to the inheritance tax in this state at a value proportionate to the value which the Wisconsin assets of the corporation bear to the entire assets. It is true that this law does not cover the entire situation, nor have its administrative problems been fully worked out.

The purpose of this law is to place all forms of property in the state on the same basis as real estate, which is commonly conceded to be taxable only in the state of its situs. Even local real estate under

the New York law would not necessarily be subject to the inheritance tax, for in the larger cities great mercantile buildings, office and bank buildings, hotels, theatres and similar properties of tremendous values are frequently, perhaps commonly, owned by corporations; and such properties might pass for generations without coming within the purview of the inheritance tax law of the state where located if the transfer of stock is held to be taxable only at the domicile of the deceased stockholder. All of the stock might readily be held out of the state. Railroads, street railways, gas, electric and water plants, water powers, manufacturing plants, mines, quarries, all are chiefly real estate values, and are usually corporate properties, the stock of those in the newer states being held largely in the east and at the great commercial centers.

What has been said of stocks is equally true of bonds and mortgages. A mortgage must be considered, as it commonly is, an interest in the real estate, since the owner of the real estate after death has his debts, including the mortgage, allowed as a deduction in arriving at the net estate passing subject to the tax. Hence if the mortgage, held by a non-resident, should not be taxed upon the death of the owner, it would in reality take a large amount of real estate value from under the operation of the tax at the situs of the real estate. What is true of mortgages is true of bonds. A difficulty of enforcing the tax upon the transfer of bonds is that they may be transferred usually by manual delivery, except in the case of registered bonds; and it is not easy to know of their existence in a foreign estate, either on the part of the officials of this state or of the corporation.

Argument is frequently made on behalf of the inheritance tax as an economic measure, designed in some degree to reduce "swollen" fortunes. There is no basis for such argument; and a state tax heavy enough to have that effect would probably drive much of the liquid capital out of the state, and prevent capital from coming in. To be sure, the maximum rate in Wisconsin is 15 per cent, a rate that would cut materially into the principal of a bequest. But that rate has never been applied to any estate; and when it is recalled that it applies only to the excess over $500,000 of a bequest to a stranger, it may be surmised that it will not be applied very soon. Cases where the rate exceeds an average of 6 per cent are extremely rare. The average rate in the state is probably well under 2 per cent. As the tax is not payable until one year after death, it can in the vast majority

of estates be paid out of income without trenching upon the principal, even in the largest estates. No partial distribution of large estates to the public can be accomplished through present state inheritance tax laws. Such result might be attained by a heavy federal inheritance tax, if it did not do more harm than good by driving capital out of the country.

Serious objections to a national or federal inheritance tax present themselves. The inheritance tax is administered in the usual process of settling the estate in the probate courts. These are state courts over which the federal government has no jurisdiction nor control. With a federal inheritance tax it will become necessary for federal authorities to intervene in the state courts to protect the interests of the government and to collect the tax. The federal government to be effective would doubtless require its own appraisers, its own forms of notices, orders, records, reports and so on, duplicating the procedure of the probate court. All of this procedure must necessarily create a confusion of jurisdiction and of practice that would be irritating and expensive to the representatives of estates, and that in a great majority of cases would cause the estate a greater expense than the amount of tax derived by the government. It would also appear to be an unwise and improper encroachment by the federal government into a just and proper field of state taxation.

Whether the value of the dower and homestead interest of the widow in the estate of her husband should be included as a part of the taxable property of the estate, or allowed as a proper deduction in arriving at the net estate subject to the tax, is a question upon which the courts have disagreed widely. It is claimed on the one hand that dower comes to the wife by virtue of the marriage, and that the death of the husband serves only to consummate, not to transmit it; that it exists by virtue of the marriage relation, and does not accrue to the wife under the intestate laws of the state. Other courts hold that dower is an inchoate right or a mere expectancy becoming a vested right upon the death of the husband, and that this accretion of a vested right is such a devolution of property as is contemplated by the inheritance tax law.

In Billings *v.* People, 189 Ill. 472, the court held dower to be taxable as an interest in the estate of the husband passing to the wife on his death. In answer to the usual argument that dower is

a right existing during the marriage relation, and not created at the death of the decedent, the court says:

> There are no laws of this state which are specifically designated as "intestate laws," and we are called upon to say what laws or systems of laws were referred to under that appellation by the act in question. The same term is employed in similar statutes in other states, and we have no doubt the laws referred to are those laws of the state which govern the devolution of estates of persons dying intestate, and include all applicable rules of the common law in force in this state. The statutes from which we have above quoted are intestate laws, and they govern, regulate and control the interest which the widow took in her husband's property at his death. As a general rule, the property of persons dying passes in two ways—that is, by will, or by descent in the modes provided by law; and when it does not pass by will, it generally passes by law—that is, by the law governing the disposition of property of persons dying intestate.

A like rule was laid down by the California supreme court in relation to the widow's "community interest" in the estate of her husband, the court holding that "the interest of the wife in the community property is a mere expectancy." (Estate of Moffitt, 153 Cal. 359.) The California court in a later case, however, very inconsistently, it seems, held that the homestead interest of the widow in her husband's estate is not a taxable interest. (Estate of Kennedy, 157 Cal. 517.) The rule as to dower of the Illinois and California courts would appear to be the better and more consistent view. The widow is ordinarily allowed an exemption of $10,000 free from tax. This would appear to be a liberal allowance and should be held to cover all property passing to her from her husband's estate. Where the widow takes under her husband's will such provision is usually in lieu of dower, and is subject to the tax. In cases of intestacy she takes not only dower and homestead interests but certain specific personal property, such as clothing, jewelry and personal ornaments, a certain allowance pending the settlement of the estate, and a certain portion of the personal property varying from one-half to an amount equal to that of a child. These provisions are made by the same law that provides dower and homestead, and the reasoning of the Illinois court that all such provisions be broadly covered by the term "intestate laws" would seem the more reasonable and less technical construction.

Many other technical and more or less difficult questions arise

in the actual administration of the inheritance tax. Wills frequently provide for life estates with vested and contingent remainders, reversions, defeasible interests, and powers of appointment. The carving up of estates under such wills and the apportionment of the inheritance tax to the various interests are questions concerning which it is doubtful if the general reader will be interested. A sufficient variety of laws has been enacted and a sufficiently large and varied mass of court decisions has been rendered thereon so that several large-sized text books have been written upon the subject.

This tax produces nearly a million dollars a year in this state. In New York it produces several million dollars annually. It will, of course, produce an amount of revenue generally proportionate to the population and wealth of the state. It must be somewhat irregular in its operation from year to year, due to the uncertainty of human life. A number of unusually large estates may be offered for probate one year, and very few the next. These irregularities are accentuated where the county is taken as the taxing unit instead of the state. A single large estate has been known to pay more tax than all the other estates of the county paid in a half dozen or more years. Besides in the larger estates the property passing is not often confined to the locality or county, but is usually scattered in various parts of the state, often in several states. For these and other reasons, this should be a state tax and not a local or county tax.

It is certain that the inheritance tax has come to stay as long as the general property tax prevails, probably longer. It has been found a profitable source of income wherever put in operation.

TAXATION OF INTANGIBLE PROPERTY

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The taxation of mortgages differs in principle in no wise from the taxation of other forms of credit. A mortgage is an evidence of a right to share in the income of property, and under certain conditions to assume its legal ownership. A bond, a share of stock, a note secured by collateral, almost any form of intangible property except a personal unsecured note, is in essential legal and economic contemplation no different. Each has its own peculiar procedure for the enforcement of the rights it conveys, but the value of all is essentially based upon the present or potential earning power of the property lying behind the paper. The personal note is of value only because it may also become a lien upon property or because of the confidence felt in the ability of the person to make good his promises. This paper right is property only in the sense that it may be transferred from person to person and enjoys the full protection of the law. In discussing the taxation of mortgages therefore, the theory of the taxation of all intangible property must also be considered.

The laws relating to the assessment and taxation of intangible personal property have, as has often been stated, evolved from the general property tax. The theory is delightfully simple—sufficient reason to account for its stubborn general popularity. Taxes should be paid by those who can afford to pay them, those who have property possess tax-paying ability, therefore measure the taxes by the capital value of property owned.

Under a state of hand trades economics this theory works out a reasonable amount of justice. The essential characteristic of this stage of economic organization is the concentration in the same hands of capital, superintendence and labor. The product is sold near at home, credit is practically unknown, a rough capitation tax reaches the casual laborer, and the property tax reaches savings for they are promptly invested in a local or in fixed property. Coöperative business under this stage is limited to a partnership, the taxation of which differs in no wise from the individual. The union of the factors of

production in the persons of the partners is still the most common form of organization.

The land or personal property mortgage is the earliest form of credit to evolve from such a stage of society. But the money borrowed is usually procured, not as capital to carry on a business, but as a means to bridge temporary financial difficulties. Eventually, however, borrowing becomes recognized as a legitimate means of obtaining business capital, and the lender is considered as being rightfully entitled to interest as a share of the earnings of the property in which his funds were invested. When this occurs it naturally follows that this financial return to the lender is regarded as taxable property.

The old, old break in logic of course comes at this point. The property mortgaged is already assessed—the successive assessment of the mortgage is a second assessment on the *same property* or rather on the *income* of the same property. The answer of the proponent of credit taxation reveals the wide difference in thought of those who favor exemption of credits from those who favor their taxation. The taxation man says—"The owner of these credits enjoys an income, has a property right in his possession, and is as able to pay a tax as the man who happens to hold the physical property." One thinks of taxing *things*, the other of taxing *persons*. The whole history of the futile attempts to tax credits is a history of this hazy confusion of thought. The man who proposes to exempt credits argues logically on the basis of the taxation of *things*, his opponent presses with equal logic the argument for *personal* taxation.

The invention of modern industrial machinery severed for all time the union of capital, management and labor, and fixed new means for the compensation of these factors for their respective shares in production. Labor and management secured fixed wages, capital took the balance as interest and dividends, according as the intangible evidence of contributions to capital were "bonds" or "stock." A recital of the numerous new forms of business conducting production and transportation is here necessary. Suffice it to say that all the new modes for increasing the comforts and pleasures of life have increased the savings of the people and the possibilities for the further diffusion of those savings in investments of capital far from the home of the owner.

The first result of these changes was to confuse the thought on

property taxation and the laws providing therefor, the second was to increase the difficulty of enforcement.

Stock in corporations, like personal ownership of property, was early regarded as merged with the property and exempt from taxation. This was natural since early corporations were frequently local and resembled closely the partnerships from which they evolved. But here entered the first wedge in the logic of the property tax. A non-resident corporate stock held by a resident was left taxable, although if his property were held elsewhere as a natural person he would not be taxed except at the situs of the property. Again the confusion of thought—is it the *thing* or the *person* that it is desired to tax? The intervention of the artificial person—the corporation—makes clearer the difficulty of the underlying theory of the general property tax. If, as the writer believes, that theory contemplated the taxation of the person, measured by property, the *corporation* never was a logical subject of such a tax.

Bonds, through their analogy to mortgages were regarded as proper subjects of taxation. Throughout these laws the situs for purposes of taxation is the residence of the owner.

The existence of intangible credits, especially in a form other than mortgages, brings out another weakness of the property tax—he conflict of jurisdictions. The physical *property* where situated is located and taxed, the intangible is assessed and taxed to the owner where he resides, both on the legal theory that personal property follows its owner and on the economic theory that the *person* owes a tax allegiance to the *place* where he lives.

The foregoing is not intended to be historical, but to develop the elements of difficulty inherent in the theory of the tax which have made intelligent readjustment heretofore impossible. Had the change in industrial conditions been uniform, had it affected alike all persons and sections, the proper corrections would have been quickly applied. But at this point entered the difference between city and country. The state legislature was dominated usually by country interests, and the only reform suggested, exemption, was palpably favorable to the wealthy urban residents. The farmers would have none of it. In order that the city might be made to contribute measurably to state taxation the intangible property must in some form be taxed. Moreover the *personal* ideal—that every man should contribute to the public burden in proportion to his ability

—was shocked at any proposition wholly to excuse a large and wealthy class of the population from direct taxation.

But not only in economic theory were the difficulties insurmountable. The real breakdown was in administration. Real estate could be seen, so could tangible property of all kinds. The credit, the mortgage, note, bond and stock were veritable will 'o the wisps of taxation. The exemptions written in of stocks of domestic corporations, of federal bonds, of state and local securities left wide open avenues of evasion. The assessor had not only to detect the presence of property, but must ferret out as well its quantity, and its kind. And he was a locally elected officer in a government whose fundamental administrative theory has always been that efficiency consisted largely in getting re-elected. To do his duty he must antagonize those to whom he must appeal to hold his job. And if this were not enough the work he did was looked upon with disfavor by all who could really have done it, and the salary was fixed at about the value of the sort of men willing to accept it.

Reports of tax commissions for years have been filled with the statement of the practical results to which the difficulties enumerated have led. At last nearly everyone has admitted that changes must be made. In the main as regards mortgages these changes have been eight:

First—Exemption.

Second—Taxation as a share in the property, at the situs of the property and accompanied by a prohibition of any contract by which the mortgagor might agree to assume the tax. (California)

Third—The second plan without prohibiting contracts—a plan really amounting to exemption. (Wisconsin)

Fourth—A low rate of taxation imposed when the instrument is presented for recordation. (New York)

Fifth—A reduced and fixed rate of taxation, assessment made as before. (Maryland)

Sixth—A rigid system of private and public spying with liberal rewards to the spies. (Ohio—Iowa)

Seventh—A rigid centralized administration and a limited rate for all property. (Ohio)

Eighth—Substitution of a progressive income tax for all taxes on intangible personal property. (Wisconsin)

The first named alternative is utterly wrong from the viewpoint of personal taxation. It has found little recent acceptance. The

second plan fails to tax the *person* where he lives. It was alleged to have been shifted to the borrower. The third has been superseded by taxation in another form. The sixth is wholly indefensible and has been abandoned. The plans remaining are all of comparatively recent origin and each has points of real value.

The recording tax has the advantage of certainty of assessment and collection and of simplicity in administration. On the other hand it is almost certain to be shifted to the borrower. It gives the tax to the state or county where the mortgage is recorded and not to the civil division in which the mortgagee lives. It cannot be automatically collected for more than a single year, and therefore dries up the source of the revenue, and it creates a special class of credits in mortgages where no logical classification exists. It fails in a word to make the mortgagee pay a reasonable tax.

The fixed limited rate placed low enough to take only a reasonable part of the income has great attractions. It taxes the *owner* as a person where he resides. It rewards honesty by taxing the security voluntarily returned at a rate which still leaves a very reasonable return to the owner. The most distressing feature of the general laws taxing credits has been the assessment of some credits at face value and the imposition thereon of rates amounting almost to confiscation of the interest. In Virginia, for instance, a special fee paid officer examines the probate and circuit court records and reports for taxation all credits found. As he is appointed by the judge it is very likely that a large part of such securities are found and taxed. But how unfairly! Real estate is grossly undervalued, tangible personal property is little better assessed and credits not under the jurisdiction of this officer scantily returned. The limited low rate corrects these evils and appeals to many as the real solution. Certainly it is as good as any yet developed *if the credits are returned*. How futile such a plan is by itself may be illustrated again by Virginia. In 1913 money on deposit was placed in a separate category by the legislature and taxed at twenty cents on the one hundred dollars of valuation. The valuation in 1913 before the law became effective was $14,002,721. In 1914, $25,820,978 was returned. The tax in 1913 was $208,640.50, in 1914, $51,650.89. Bank reports showed deposits in 1914 of $150,527,998. The problem is not solved *merely* by lowering the rate. The taxpayer will not volunteer any tax no matter how low. It must be assessed, and proper machinery must be provided for

that assessment. The fixed rate plan has a further defect. As public expenditures increase, as increase they must, revenues must increase to meet them. The great strength of the general property tax lies in its elasticity. But as groups are taken out of the general plan of that tax, the rate fluctuations of the remainder must be more violent to meet the changes in revenue demands. Just as the addition of a foot of water to the surface of a placid lake will become a destructive torrent when released to the narrow confines of a river, so a raise in taxes scarcely noticed when spread over the wide area of all property is felt severely if restricted only to a certain class of subjects. A further difficulty which is very real is the adjustment of a fair rate. That rate is not what reasonable persons might regard as a fair portion to take from the income, but the fair tax proportioned to the rate of income taken from other subjects of taxation, due allowance being made for under-assessment but not for non-assessment. This fair tax rate on intangible property varies from country to city and from state to state. It is low in the country and in the South; it is high in the city and in the North. The average tax rate on capital value of $100 in Wisconsin is $1.38, in Virginia, $.58. In Milwaukee it is $1.60 and in Richmond, $.93. A fair tax on a credit in Milwaukee would be an unreasonable tax in Richmond, income conditions being equal. Taxes some years ago were found in Wisconsin to take approximately 15 per cent of real estate rentals. The percentage is probably greater now. The railroads of Virginia paid in 1912–1913, 25 per cent of net corporate earnings for taxes, net corporate earnings being net earnings from operation less debt charges. Since the owners of the stock paid such a percentage of *their* proceeds, should the owners of the *bonds* pay less? If it be argued that the owner of the farm or of the railroad (stock) has the advantage of the unearned increment on his property it may well be answered that the owner of the mortgage or the bonds had a property of much more stable value and one on which he can in time of need or opportunity more speedily realize.

A lower rate on intangibles frees the tax system of the virtual confiscation so often following occasional assessment. It does not in itself provide for adequate assessment of *all* credits, it does not meet the revenue demands. It tends to crystallize the revenue system in fixed rates and to render unstable the rates on all property remaining in the general property plan. These objections are met

by the new plan of Ohio. A low fixed limit is placed on all property, centralized assessment is provided by assessors appointed under civil service by the state tax commission. The weakness of the Ohio system lies in the attempt to place an arbitrary limit upon all taxes. This limit must be so low as seriously to cripple the legitimate functions of some governmental units or so high as not to restrict materially gross extravagance in the vast majority.

The Ohio plan further denies the dissimilarity of things which are really different and which should be differently treated for purposes of taxation. The income of intangible property comes to the owner net, of tangible property, plus charges for all the losses to which such property is subject. The capital value of the latter shifts daily as these numerous factors of expense increase or diminish. The capital value of a note or mortgage is named in the instrument itself. The income from tangible property may, within limits, be made to conform to an increased demand for taxes, the same change is not so easily accomplished in the case of credits. These fundamental differences should be recognized in all legislation dealing with the taxation of these classes of property.

There remains to be considered the most radical plan adopted by any state as a means of reaching intangible property—the Wisconsin income tax. This tax exempts intangible property from taxation and levies a tax upon all incomes above certain reasonable exemptions. The tax is administered by a central state commission which appoints under civil service and *controls* the assessors of incomes themselves. The rates provided in the law grade from 1 per cent on the first $1,000 of taxable income to 6 per cent when the income reaches $12,000. A tax is also levied upon corporations and partnerships. The law is far from perfect. It levies a heavier tax upon corporations than upon individuals and partnerships. It is designed not merely as a means whereby to tax the owner of intangible property, but of tangible property as well. The tax on corporations and partnerships is not a mere device to stop the income at the source, but taxes the corporate and partnership income *as such* independently of any tax liability on the part of the owners behind these mere fictitous creations of the law. The location of the *property* producing the income and not of the taxpayer is the test of taxability. The law shares the weakness of the recording taxes and special fixed rate levies in that the rates are laid wholly without refer-

ence to the revenue demands of the government. On the other hand it is eminently strong in the administrative features and *the incomes are assessed*. Unfortunately, because the individual, corporate and partnership provisions are complicated by offsets and exemptions, there are no statistics available which really show what incomes of individuals were really declared. The report of the Wisconsin commission for 1912 shows the assessment of income for the first year of the tax to have been $100,845,863 of which $44,311,315 was income of corporations and $56,534,548 was returned by individuals and partnerships. If all the owners of Wisconsin corporations and partnerships were located in Wisconsin and Wisconsin people owned no outside securities the $100,000,000 would of course represent the individual income actually returned. The highest assessment of intangible *property* ever made in Wisconsin was only $73,055,104.

It will be seen that all the systems now in use by those states most advanced in tax reform wherewith intangible property is sought to be taxed, are defective to a greater or less extent. The writer believes that these defects arise from the same cause that has led to the failure of the general property tax to reach intangibles. The makers of all these laws appear not to have thought clearly whether it is the *person* or the *property* that is to be taxed. The writer believes there are two legitimate situs claims for taxes—the one where tangible property is found, the other where the *personal* owner of that property resides. This belief is not founded upon any benefit theory of taxation. Wherever property and government exist together, even in a wilderness, there must be means provided for the support of government, and property supplies those means. Wherever persons and government exist together the government must live and those persons must in some form share in its support. The ability to pay is measured in the one case by capital value, in the other by income. Either form of tax is unworkable without the other. No government in a new country could afford to wait upon the uncertain exigencies of incomes arising from the property within its borders, a crowded city supporting a great population only casually connected with tangible property cannot justly ignore incomes as a source of revenue. Alongside of these a third class must be mentioned—those persons, either corporeal or corporate, who through the ownership of special privileges operate certain kinds of enterprises of a non-competitve character. Transportation, banking,

insurance and the services of heat, light and power are of this kind. Such enterprises should not be assessed like property, but as units, including in one assessment the real, tangible personal, and intangible going values.

The matter of tax rates remains to be considered. It is believed that *all* subjects of taxation should feel alike the expenses of government and if those expenses increase *all* should share in the added burden. Tax rates fixed on one class of tax payers and elastic as to others are bad both because they render the one class indifferent to their civic duties, and the other unduly sensitive to changes in the rates. They invite legislative extravagance if the fixed revenues exceed legitimate demands, and compel niggardliness if the fixed sources fall short of expectations.

All taxes on tangible property should be at uniform rates within the locality levying the tax. Such an adjustment is simple, and works no hardship. In competitive business (where taxes are merely one of the elements of expense, and as such included in the selling price) the adjustment to the conditions imposed by such taxes is easy and simple. Comparative stability of rates is more important to competitive business than is the amount of the tax.

The rates on tangible property should also be imposed upon non-competitive business under the unit assessments. The rate on *personal incomes* (there should be no other income tax), imposed in lieu of all taxes on occupations and intangible property should never be less on the *income* than the tax rate on the *capital value* of property. It should be adjusted with a view to a rough approximation, at least, to the demands on the income of tangible property. If the progressive principle be applied, the rate should start well below this burden and end well above it so that the average may be reasonably close to the normal tax rate. To be specific: If a tax rate of one per cent takes ten per cent of property income, the income tax rate if it start at one per cent should progress so that the average income tax payer of that community would pay ten per cent. If the tax rate should then become two per cent the primary income rate and all the progressive rates should be increased by this one per cent. In this manner the *personal* taxpayer is made to take pot-luck with all others, and has an equal interest in public expenditures. This plan may be applied to each locality, to counties and to the state. It is simple. It supplies the proper demand for

personal taxation. It makes the personal tax reasonable—as the general property tax is not. It is flexible—as the substitutes, heretofore suggested, are not.

There should be no misunderstanding of one fact which all recent reforms make clear. No law is half so badly needed as is an honest and efficient administration of such laws as we may have. True, vicious laws form an excuse for non-enforcement, but it is mainly an excuse. The fact is that efficient and fearless law enforcement in taxation especially is so foreign to American experience that no one can say how well the laws we have had would have worked had proper machinery been provided for their enforcement. The auditor of Virginia added $50,000,000 to the assessment of intangible property in two years by a vigorous exercise upon local officials of the mere power of persuasion. A few such real serious administrative efforts are worth a thousand volumes of Utopian legislation. After all, taxation, both on the part of the taxpayer and tax assessor, is a personal matter and can work well only when gone about with the same honesty and seriousness of purpose that characterizes the bulk of the other personal contacts of humanity.

NOTE—Since the above discussion deals primarily with the taxation of intangible property, and only with other subjects so far as their discussion was necessarily coupled with the main theme, it should be understood that the detailed views of the writer as to the taxation of tangible personal property, increment taxation, inheritance taxes and others not a necessary part of a property tax, are not expressed.

THE EXTENT AND EVILS OF DOUBLE TAXATION IN THE UNITED STATES

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Double taxation of the same property right is deemed to be inherently unfair and is specifically forbidden by the fundamental law of some states; and it may be said in general terms to be contrary to sound principles of taxation. To a certain extent the citizen is protected against double taxation caused by the arbitrary exercise of the taxing power, not only through the fundamental law of his own state, but also the Constitution of the United States. Nevertheless, it may be said that double taxation prevails to a greater extent in the United States than in any other part of the civilized world. This is primarily owing to the complexity of our system of government, whereunder the citizen and his property are subject to the taxing power of two distinct sovereignties, the state and the United States, and to the general ignoring of interstate comity in the exercise of the taxing power by the states over the persons and property within their own jurisdiction.

In the exercise by a state of its power of taxation over persons and property within its jurisdiction, there is double taxation, to a certain extent, in the popular, if not the legal, sense of the term; and this is the more frequent in the now admitted failure of the general property tax as an effective taxing system. Thus, the state may tax property and the income from the property. It may tax a stock of merchandise and the right to use that merchandise in conducting a business. A man may be taxed upon property and also be compelled to pay assessments for public improvements on the theory of the betterment of his property from the improvements, which may and may not exist in fact. There is another form of double taxation of the same value, though to different owners, in the taxation of land and the mortgage upon the land, though the existence of the mortgage reduces by so much the value of the land. These cases the law does not consider double taxation in the legal sense, that is, the duplicate taxation of the same property right.

As a rule, however, direct double taxation is sought to be avoided in the administration of the taxing laws of the states; and it has been repeatedly declared by the courts that it is never presumed, though it has been broadly stated that in the absence of constitutional restraints the power of the state to tax the same property twice is said to be the same as the power to tax once. That is, there is no federal constitutional question raised by the exercise of such a power where there is no arbitrary discrimination between those of the same class. Thus, in the universal adoption of corporate organizations it is recognized that the holders of corporate shares should not be taxed by the state, when the corporate property is taxed by the same state. On the other hand, in the case of mortgage taxation, it is also clear that there is no new property value created by the mortgage, but there has been in effect a division of the property value between the mortgagee and the mortgagor. This has been recognized in California and Oregon by a system of taxing the separate interests of the mortgagee and the mortgagor; and in the supreme court of the United States this system has been held to be valid under the Constitution of the United States (Savings Society *v.* Multnomah, 169 U. S. 421), where the court said that there was nothing taxed but the real estate mortgaged, the interest of the mortgagor therein being taxed to him and the rest to the mortgagee, and that in this there was no double taxation.

The statement in the opinion that there was no double taxation applied only to the case before the court, that is, where the statute of Oregon under consideration expressly exempted the mortgagee from taxation upon the note secured by the mortgage; but there was nothing to prevent another state, where the holder of such a mortgage note was domiciled, from taxing him thereon; and this latter form of taxation, that is, upon holders of notes secured by mortgages in other states, has been sustained by the supreme court as not violative of due process of law (Kirtland *v.* Hotchkiss, 100 U. S. 491). The practical difficulty which has prevented the general adoption of this California and Oregon plan of taxing mortgages is found in the impossibility of preventing the practical evasion of the tax upon the mortgagee, by enforced assumption of such tax by the mortgagor as a condition of the loan.

The ineffectiveness of the general property tax, in so far as intangible personal property is concerned, which is dependent

upon the disclosure by the tax payer of his possessions, is too notorious to require extended discussion. This ineffectiveness necessarily applies to the attempted taxation of mortgage notes as personal property, with the exception of the estates of widows and orphans in the probate court and of trustees who do not care to evade for the benefit of their beneficiaries. Such taxation of mortgage notes and other intangible personalty is practically repudiated by the public, so that the tax as a rule is only paid by those who are not able to evade.

The only remedy for double taxation of this kind in the state taxing laws is in the substitution of an effective taxing system for an ineffective one, thus recognizing the fundamental principle in taxation that effectiveness, and not equality, should be the primary aim. As has been well said, an effective system of taxation which cannot be evaded will tend to bring about equality, while a tax levied without regard to effectiveness, though ostensibly equal, may result in the grossest kind of inequality. This is illustrated by the success of the so-called mortgage recording tax in New York and other states resulting in a largely increased public revenue and in the successful application of the principle of classification in the registration of securities for taxation.

Double taxation is necessarily involved in the exercise of the taxing power by the independent sovereignties of the states and the United States. Thus, the enlarged taxing power given to Congress is illustrated by the new income tax law, and the new war tax will also involve double taxation in the taxation of forms of property which are taxed under state laws. This form of double taxation is the necessary result of our complex form of government, wherein the person and property of the citizen are subject to the exercise of the taxing power by the sovereignties of both state and nation.

There is another form of double taxation, however, which is not the necessary result of our complex governmental system, but is directly caused by the ignoring by the states of the fundamental principle of interstate comity in the exercise of their taxing power. Thus there is a widely diffused double taxation resulting from the subjection of the same property value to the taxing powers of different states, as where the owner of property is domiciled in one state and the property is located in another, or where the property

is in one state and the paper evidence of the property is in another, or in case of inheritance or succession taxation where the decedent is domiciled in one state and the property located in another, or the legatee is resident in still another.

Thus, it was forcibly said by one of our most eminent economists, Professor Seligman:

> It need not be pointed out, that amid the complexities of modern industrial life equality taxation cannot be attained without a careful consideration of these problems. Today a man may live in one state, may own property in a second, and carry on a business in a third. He may die in one place and leave all his property in another. He may spend all his income in one town and may derive that income from property or business in another. He may carry on business in several states, or if he has invested in corporate securities, the corporation may be the creature of another state, or be situated to do business in a third. All these cases may affect foreign states or separate commonwealths of the same federal state, or separate cities or counties of the same commonwealth. The possible entanglements are well-nigh innumerable.

The due process of law and the equal protection of the laws guaranteed by the federal Constitution do not enforce interstate comity in state taxation except to a very limited degree. The jurisdiction of a state in taxation, as in other matters, is limited to its own territory. It can tax, however, not only the property located within its territory, but also the persons domiciled there; and if it can reach or discover the same, it can tax the intangible personalty of those domiciled within its jurisdiction wherever located, and it can also tax the business that is carried on within its jurisdiction, irrespective of the domicile of the owners of the business. The real difficulty in the application of the principle of interstate comity is in the fact that the jurisdiction of the state for taxing purposes extends, not only over property and business within its borders, but also over the persons domiciled therein. It may disregard the fiction that personal property has a situs at the residence of the owner, and may tax all property even including notes, bonds and the like, belonging to non-residents when they have acquired what is deemed an independent situs in the state. The only limitation upon this comprehensive power which is incident to sovereignty over the persons domiciled, the business conducted, and the property located within the jurisdiction, is that this does not extend to tangible personal property any more

than it does to real estate which is located within the jurisdiction of another state. This limitation was declared by the supreme court in Union Refrigerator Transit Co. *v.* Kentucky, 199 U. S. 194, but the court said that this case did not involve the question of taxation of intangible personal property or of inheritance or succession taxes which are controlled by different considerations.

A familiar case of double taxation resulting from the ignoring of interstate comity is that of shares of stock or bonds of a foreign corporation, or bonds of another state which are assets in the hands of a citizen taxable by the state wherein he is domiciled. Such securities are taxable as a rule, not because they are specifically mentioned in the tax law, but because they are included in the property which the individual citizen is required by law to return for taxation. Some states specifically require the enumeration of such property. This ignoring of interstate comity in the taxation of corporate and other securities is the more to be deplored as the commercial relations of our people are not controlled by state lines, and corporate securities both stocks and bonds are freely invested in by our people irrespective of whether the corporation is organized under the laws of the same state or not. Comparatively few of our states have sought to base this question of the taxation of corporate and other securities upon sound, economic and just principles not limited to state lines. Some states have recognized a retaliatory principle in their tax legislation by providing for the exemption of resident stockholders as to their holdings of the stock of non-resident corporations, when the laws of the state of the incorporation provided a like exemption for those domiciled in that state.

In Kidd *v.* Alabama, 188 U. S. 730, it was said that:

> No doubt it would be of great advantage to the country and to the individual states if principles of taxation could be agreed upon which did not conflict with the others, and a common scheme could be adopted by which taxation of substantially the same property in two jurisdictions could be avoided, but the constitution of the United States did not go so far, and a state was not bound to make its laws harmonious in principles with those of other states.

The consequences of this general disregard of interstate comity in taxation are very much controlled by the now generally recognized ineffectiveness of the system of general property taxation, so far as the taxation of intangible property, interstate as well as

state, is concerned, where it rests entirely upon disclosure by the individual tax payer of his securities. Statutes subjecting intangible property, such as stocks, bonds, and other evidences of indebtedness, to taxation, have been found essentially unenforceable, as it is practically impossible to enforce from tax payers the disclosure for taxation of such property located or secured in other jurisdictions.

There is another form of double taxation through the ignoring of interstate comity which is not capable of evasion, and that is in the state inheritance tax laws. A state may not only impose a tax upon an inheritance of property of decedents domiciled in such state, but may also tax the property located in its territory, which passes under the inheritance law of any other state. The decedent may have been domiciled in one state, and his property may be located in another, or he may own stock in a corporation of another state, while the heir, legatee or devisee may live in a third jurisdiction.

It was directly ruled by the supreme court in Blackstone *v.* Miller, 188 U. S. 189, that interstate comity was not enforced by the federal Constitution to prevent duplicate taxation under inheritance tax laws of different states upon the same estate. Thus, in this case it was held that the imposition of a tax under the New York inheritance tax law on the transfer, under the will of a citizen of Illinois, of debts due the deceased by residents of that state, did not violate the fourteenth amendment, although the entire estate was taxable in the state of Illinois.

The supreme court of New York said in such a case that:

"It was unfortunate that the laws of the different states relating to succession taxation were not uniform and framed to prevent double taxation."

This subject was carefully considered by the National Conference on Taxation, held at Buffalo, New York, May 23, 1901, under the auspices of the National Civic Federation, attended by representatives both economists and men of large practical experience in taxation appointed by governors of some thirty states. The conference unanimously adopted the following resolution, after full discussion, as expressive of its views:

WHEREAS, Modern industry has overstepped the bounds of any one state, and commercial interests are no longer confined to merely local interests, and,

WHEREAS, The problem of just taxation cannot be solved without considering the mutual relations of contiguous states, be it

Resolved, That this conference recommend to the states the recognition and enforcement of the principles of interstate comity in taxation. These principles require that the same property should not be taxed at the same time by two state jurisdictions, and to this end that if the title deeds or other paper evidences of the ownership of property, or of an interest in property are taxed, they shall be taxed at the situs of the property, and not elsewhere. These principles should also be applied to any tax upon the transfer of property in expectation of death, or by will, or under the laws regulating the distribution of property in case of intestacy.

Not only interstate but international comity is required under modern conditions to protect the taxpayer from double taxation. The world is growing smaller and investments are limited neither by state nor national boundaries. In a suit brought by a California bank to recover taxes alleged to have been illegally levied, the supreme court said (104 U. S. 111) that all subjects over which the jurisdiction of the state extends are objects of taxation. The court said that it assumed that the foreign investments of the bank were such as were usual in a bank's business and had their legal situs at its domicile; but the court did not consider what would be the rule, if the investments were in fixed property subject exclusively to another jurisdiction.

Double taxation of the same property to the same owner, whether resulting from a disregard of interstate or international comity, is alike repugnant to economic justice, and is condemned by the universal law of mankind, the *jus gentium* of the civilians, which was said to be common to all nations, because resting on the nature of things, and the general sense of equity which obtains among all men.

THE CENTRAL CONTROL OF THE VALUATION OF TAXABLE SUBJECTS

By Samuel T. Howe,

Chairman, Kansas State Tax Commission.

It is more than a century and a quarter ago that Alexander Hamilton said in substance that no part of the administration of government requires for its proper management such extensive information and so complete a knowledge of the principles of political economy as the business of taxation.

The proposition then announced by Hamilton has since been repeatedly affirmed by others, and as the years have passed has come more and more to be recognized by students and well informed executives as a truth which should be impressed upon tax laws, and should also characterize the administration of revenue systems if all citizens are to be treated before the law in a relatively equal manner.

But while those who by reason of study or administrative effort are in close touch with the question and are unanimously agreed to the proposition, the public upon whom the burden of the tax rests is generally unresponsive or directly antagonistic to suggestions of students or experts or experienced administrators for the construction of revenue systems of the kind needed to place this branch of the public service upon the same plane of efficiency that private business in general occupies.

Whether this attitude of the public comes from inertia, lack of information, or other source, the result is the perpetuation of the loose and haphazard ways of laying taxes that have grown up in many jurisdictions.

The bottom fact of the proposition is that taxation is a business, and as such requires in its conduct the most highly developed methods that can possibly result from the combined knowledge of the student and the administrator.

Hamilton's influence in forming the federal system was great and has been lasting; but the system has often been changed more or less by partisan desires and action, and is not the product of the disinterested wisdom of experts. For example, only recently the

movement previously inaugurated to investigate upon non-partisan lines certain phases of the system has been checked and probably defeated; certainly for the time being.

The formation of the revenue systems of many of the states has not seemed to follow intelligent design. The systems have been built largely piece-meal; have been guided in growth sometimes by legislative thoughts of expediency, at other times by popular demands for changes in revenue measures inspired by the wiles of the demagogue who too often speculates upon the credulity of the uninformed; and at still other times by those able to influence legislation for their own selfish purposes.

Until comparatively recently, administration of many branches of public business in the states has proceeded quite independently of expert or scientific knowledge, but within the past two or three decades many states have realized the benefits which have come to other governments through the employment of experts in the various lines of service and are taking over approved methods in order to have like benefits within their own jurisdictions.

There is need of an educative movement so that the people may come to realize that there is in the land a great body of intelligent, able and high-minded students who by careful inquiry into past experiences of the race have become qualified to propose measures to law-making bodies which if placed on the statute books will greatly promote social welfare; and it should also become commonly known that large numbers of public servants in the various branches of service are earnestly seeking ways to improve the law and its administration so that the benefits of government shall be enjoyed by citizens and its burdens borne by them in a relatively equal manner.

In keeping with the modern centralization of productive energies, there has been a centralization, though in much less degree, of governmental activities, much the larger part of the movement having occurred within the past one or two decades.

Real equality in laying taxes upon property requires relatively equal assessments of all property in a given assessment district, for within the district the rate of tax for district purposes must be uniform.

Some districts are a complex whole constituted by smaller districts as units, and may themselves be units in the formation of a still larger district. Ordinarily, a school district is the smallest area

in which a particular tax rate is applicable; but school districts are seldom assessment districts; in combination with other like districts having different rates of levy for school purposes they form the township assessment district.

The township district tax rate varies among the township districts, and all such districts unite with city districts to form the county assessment district. The rates of tax vary among the county districts, but are uniform over their respective areas and the county districts are units in the formation of the state assessment district where the state tax rate applies to all property uniformly.

Thus the unit assessment district least in area may be the township or the county. Under the township plan, values for county purposes are fixed according to the varying opinions of numerous assessors who are seldom chosen because qualified for the work. Under the county plan, one judgment fixes all values, and it hardly needs saying that uniformity in assessment is here possible whi'e it is impossible under the other plan.

Boards of equalization are functionaries common to the states, and as the name implies are designed to remove inequalities in the assessment. Experience shows that such boards are not able to furnish all the remedies provided by law. They lack a knowledge of the conditions which surround individual taxpayers, and do not have the time during the assessment period within which to acquire the information necessary to advise them as to the condition of all taxpayers in their respective jurisdictions, and this knowledge is a prerequisite to a removal of inequalities which may occur in the local assessment. Individuals who complain in legal form may have relief, but those who lack the information of how to proceed to obtain relief and those who discover their grievances too late to apply for it, must go without a remedy.

It follows that equality in the original assessment is the indispensable condition to a real equality in laying taxes, and that the larger the area covered by one assessing power the greater will be the uniformity of valuation among taxpayers.

Logically the centralization of the actual work of assessment should be with the authorities of the state district so long as the state tax levy is laid upon all property in the state; but the great burden of taxation arises from local tax rates and a centralization of the assessment work in the county authorities with a directory and super-

visory control by the state will afford a method both practicable and expedient, and therefore suitable to achieve the desired end.

Ideal centralization involves the control of the machinery of assessment, and this means of course appointive instead of elective assessors. In no other way than by appointment is it possible to select assessors because of their qualifications and to continue them under civil service rules so long as they prove to be efficient. Centralization is thus necessary for general tax purposes, and the prevalent emphatic movement toward centralization affirms its desirability and expediency.

However, the unsatisfactory results attending the assessment of certain forms of corporate property by a divided responsibility first led to centralization. It was quite early in the history of these corporations found to be utterly impracticable to assign to numerous persons the valuation of parts of a railroad, a telegraph or a telephone line situated in the different districts through which the railroad or the other lines were constructed, and soon it became the policy to create state boards to assess this class of property. The property of such corporations being usually public service corporations and subject to local tax rates, justice required that it be assessed in a relatively equal manner with local property, but this proved to be a difficult proposition because the railroad or other line was assessed by one authority at a uniform value in all the districts through which it passed, while local property as valued by the local authorities varied greatly in the different districts from the uniform value of the railroad or other line. Because of the resulting wide variation from a single standard of valuation there arose inevitably the need of a central authority to place all property upon the same basis of actual value, and state boards of equalization, tax commissions or other central bodies were a natural growth.

In 1842 there came a degree of centralization in New Hampshire, and in after years more or less centralization occurred in other states: in Indiana, in 1851; Massachusetts, 1865; Dakota, 1868; Kansas, 1869; Missouri, 1871; Illinois and Iowa, 1872; Arkansas, 1878; California and Wyoming, 1879; New York, 1880; Vermont, 1882; New Jersey, 1884; North Dakota, South Dakota and Washington, 1890; Rhode Island, 1898; Wisconsin, 1901; Nevada, 1903; Oregon, 1909; Ohio, 1910.

The method was first developed largely in connection with the

assessment of public service corporations operated interstate or intercounty, but gradually the central bodies were reformed and given additional powers tending to the control of general assessments.

Important powers lodged with permanent tax commissions or with bodies having analgous duties to perform are the following:

The administration of oaths in all matters concerning proceedings in connection with the discharge of official duties.

The formulation and promulgation of a uniform method of keeping tax rolls and other records relating to taxation, for use in all counties of the state.

The formulation and promulgation for use in the several counties of all forms necessary in the listing, assessment and return of property and collection of taxes.

Power to exercise a general supervision over and to direct county assessors in the performance of their duties.

Authority to investigate generally the condition of the system of taxation throughout the state in order to report to the legislature needed changes in the system designed to promote a general equality of taxation.

The power to require local officers having to do with assessment and the collection of taxes or the disbursement of public funds to report in such form as the central body may require, information bearing upon any investigation being made; and in such investigation to call upon individuals and corporations for information bearing upon the subject of taxation; to examine books and papers; summon witnesses to appear and testify and to produce books and papers before it at a time and place to be appointed by it.

Authority to prescribe all needful rules not inconsistent with law for the orderly, methodical, and effective performance of its duties as a board of assessment or otherwise, and for conducting hearings and other proceedings before it.

Authority to exercise a general supervision over the administration of the assessment and tax laws of the state, over the township and city assessors, boards of county commissioners, county boards of equalization and all other boards of levy and assessment to the end that all assessments of property, real, personal and mixed, be made relatively just and uniform.

Power to confer with, advise and direct assessors, boards of commissioners, boards of equalization, and others obligated under the

law to make levies and assessments as to their duty under the statutes.

Power to direct proceedings, actions and prosecutions to be instituted to enforce laws relating to penalties, liabilities, and the punishment of public officers, persons and officers or agents of corporations for failure or neglect to comply with the orders of the central authority or with the provisions of law governing the return, assessment and taxation of property; and to cause complaints to be made against assessors, county commissioners, county boards of equalization, or other assessing or taxing officers in the courts of proper jurisdiction for the removal from office for official misconduct or neglect of duty.

Power to call upon the attorney general of the state, or the county attorney of the respective counties to assist in the commencement and prosecution of actions and proceedings for penalties, forfeitures, removals and punishments for failure to observe the tax laws of the state.

Power to require township, city, county, state or other public officers to report generally upon matters of taxation, and particularly to make and prosecute research and investigation concerning the detailed properties of corporations, the business, income, reasonable expenditures and true values of the franchises and properties of all public service corporations doing business in the state.

Power to summon witnesses from any part of the state to appear and give testimony and to compel such witnesses to produce records, books, papers and documents.

Authority to cause the depositions of witnesses residing within or without the state or absent therefrom to be taken in accordance with the customary practice in taking depositions.

Power to make appraisement and assessment of the property of all public service corporations which are not confined to the limits of a single county.

Power to require any county board of equalization at any time after its adjournment to reconvene and to make such orders as shall be determined to be just and necessary, and to direct and order such county boards of equalization to raise or lower the valuation of the property, real or personal, in any township or city, and to raise or lower the valuation of the property of any company or corporation; and to order and direct any county board of equalization to raise

or lower the valuation of any class or classes of property, and generally to do and perform any act or to make any order or direction to any county board of equalization or any local assessor which may seem just and necessary in order that all property shall be valued and assessed in the same manner and to the same extent as any and all other property, real or personal, which is required to be listed for taxation.

Power to prosecute any member of any board of county commissioners and any assessor for violation of any of the rules and regulations which may be prescribed by the central body, or the violation of any statute of the state relating to assessment of property and the collection of taxes.

Power to prescribe a list of questions to be answered by taxpayers or other persons.

Power to sit as a state board of equalization and to equalize the assessment of property throughout the state; to equalize the assessment of all property in the state among persons, firms or corporations of the same assessment district, among cities and townships of the same county, and among the different counties of the state, and the property assessed by the said central body in the first instance; the equalized value so fixed to be adopted as the assessment roll for the extension of all tax rates, state and local.

Power to order a reassessment of all or any part of the property assessed by the local authorities in any given assessment district; such assessment to be made by assessors appointed by the central body and the assessment to be made at the expense of the district so reassessed.

Power to remove county assessors for dereliction in duty and to approve of the removal by the county assessor of deputy assessors.

All of the above powers—and others of less importance not mentioned—have been given to one or more permanently organized central bodies, and are illustrative of the modern tendency to organize the business of taxation upon lines of efficiency.

The responsibility thus placed with some of the central bodies is very great, and calls for a large knowledge and a wise discretion in the performance of duty. Power, and an inclination to its full use, usually go hand in hand. Careful deliberation before the exercise of authority is very important, and it will be found many times that power held latent but ready for use will be fully as effective for good as if it were exerted.

One form of centralization is yet to come, and this will be in relation to corporations operating transportation and transmission lines interstate. There is at least as much justification for a centralized assessment of the property of these corporations as there is for a central assessment of like property of lines crossing several districts within a given state. In fact, such centralization would seem to be more needed because under the irresponsible divided system now obtaining there is a tendency on the part of states to reach out and import values pertaining to property of public service corporations operating interstate. Just how this centralization will come is a matter of speculation. The power of assessment may be lodged in a body raised by Congress, or the central body may be appointed jointly by the states interested, under some federal law of control, with proper provision for a division of the value of the property of particular lines of transportation or transmission among the states through which the lines are built.

The revenue systems of the states are so diversified, and the duties required of central boards are so many and varied that classification of the boards is very difficult.

An interesting classification of central boards that are charged with the duty of corporate assessments in one form or another may be found in Part V of the valuable report of the federal commissioner of corporations on the taxation of corporations, made to the department of commerce.

In the first class are included wholly *ex officio* boards or officers, and these exist in New York, Pennsylvania, Delaware, North Dakota, Iowa, Nebraska, Missouri, Montana, Idaho, Wyoming and New Mexico. (Since the report a permanent tax commission has been created in North Dakota.)

In the second class are the boards, one or more members of which are *ex officio* and the remaining members are specially chosen either by election or appointment. The boards of this class are found in Connecticut, Indiana, Illinois, Michigan, Oregon and California.

The central authorities not classed as above indicated have memberships wholly selective and are in the following states: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, New York, New Jersey, Maryland, Ohio, Wisconsin, Minnesota, North Dakota, South Dakota, Kansas, Colorado, Utah, Nevada, Washington and Arizona.

Boards or officers having central authority are variously named as follows: comptroller, auditor general, state treasurer, state auditor, secretary of state, state board of equalization, state executive council, state board of equalization and assessment, tax commission, state board of tax commissioners, state board of assessors, state board of appraisers, commissioner of taxes, etc.

The classification mentioned above was prepared by the commissioner of corporations with relation only to the central assessment of corporate property. To harmonize with what is here said a different arrangement is needed. The nomenclature of the central authorities is so varied that one or another name must be selected to designate a class of which the members may be variously styled. A consideration of the functions of the central authorities naturally suggests a three-fold classification, i.e.:

I Authorities that are charged only with the assessment of corporate property or the determination of the amount of tax due from certain corporations.

II Those that have not only the duties of the first class to discharge but in addition are required in some degree to equalize assessments in general.

III Those that perform not only the same duties that are imposed upon members of classes I and II, but are required also to exercise a directory or supervisory control of the work of local assessors.

Class III is under consideration in the preparation of this paper, and its members may be generally designated as "permanent tax commissions."

Among the individuals of the class, centralization is more or less differentiated. The Indiana commission was the first body to be granted what may be called extraordinary powers, and as the other states have since created similar commissions in rapid succession, the policy has been to give added powers until in a few jurisdictions the commissions have practically all the authority that is needed.

As the benefits of centralization have been perceived there has resulted also increased powers to the earlier created bodies. The only thing which tends to check the movement towards centralization is the separation of the sources of state and local revenue. In states where this system has been provided, the tendency is naturally away from centralization except as to the assessment of property which provides the state with revenue.

States which have members of class III appear in the following statement in chronological order of creation, as near as could be ascertained; and also there are given the dates when the commissions were organized, so far as such information is available.

States	Date of Law	Date of of organization
Maine	March 26, 1891	1891
Massachusetts	1891	1891
Indiana	1891	1891
New York	1896	1896
Michigan	1899	1899
Wisconsin	April 19, 1899	June 7, 1899
Connecticut	1901	July 1, 1901
North Carolina	1901	1901
West Virginia	Aug. 11, 1904	Nov. 28, 1904
New Jersey	March 29, 1905	April 3, 1905
Texas	April 17, 1905	Aug. 13, 1905
Washington	1905	1905
Alabama	1907	1907
Kansas	March 7, 1907	July 1, 1907
Minnesota	April 25, 1907	April 27, 1907
Arkansas	May 12, 1909	May 18, 1909
Oregon	1909	1909
Wyoming	1909	1909
Ohio	May 10, 1910	July 1, 1910
New Hampshire	April 15, 1911	May 1, 1911
North Dakota	1911	July 1, 1912
Colorado	June 2, 1911	May 20, 1912
Rhode Island	Feb. 15, 1912	Feb. 20, 1912
Arizona	May 12, 1912	May 18, 1912
Georgia	1913	1913
Maryland	1913	1913
Nevada	1913	1913
Montana	Feb. 1913	April 1, 1913
South Dakota	Feb. 13, 1913	Feb. 26, 1913
Idaho	March 13, 1913	May 13, 1913
Florida	June 7, 1913	July 10, 1913
Vermont	no data	no data

In Wisconsin an income tax has largely replaced the personal property tax, and the tax commission appoints all assessors of incomes. In Ohio, deputy state tax commissioners are appointed by the governor, and are subject to removal by the tax commission with the consent of the governor. Deputy assessors are appointed by the deputy state tax commissioners, but all are under the absolute control of

the tax commission. The Ohio commission is among the latest creations, and as the result of the benefits of centralization observed in other states, has been assigned nearly all the powers that have been devised to give full centralized control of assessments.

In a few other states the commissions have power to appoint assessors, but this ideal power has not yet been extensively bestowed. Efficiency in this branch of the public service will certainly be sooner realized under an appointive assessor system than where such officers are elective. Under the first plan they can be chosen because of their qualifications and can be retained so long as they efficiently and honestly serve the public. Under the elective system the choice is a sort of "hit or miss" selection. Rarely will a qualified officer be chosen in this way. As a rule qualifications for special work receive little consideration at the polls.

In conclusion some of the results of the work of commissions are as follow:

Arizona: Organized 1912, but three weeks thereafter the assessment rolls were closed and but little could be done that year. The commission re-wrote the entire revenue laws of the state and removed inequalities. The bills prepared became laws. An investigation showed that there was great inequality in the distribution of the tax burden, and resulting action increased the revenue from mines from 19 per cent of the total tax previous to the organization of the commission to $37\frac{5}{6}$ per cent of the total tax in the first full year of the commission's work, and the revenue from railroads from 12 per cent of the total to $22\frac{3}{6}$ per cent.

A careful system of checking in regard to stock shipments resulted in a large number of animals being placed upon the roll that had previously escaped taxation. Pursuant to a law written by the commission and enacted by the legislature, the state revenue will be increased in 1914 to the amount of $18,000 from a source never before taxed, *i.e.*, the property of private car companies. A careful equalization of all property in the state has already brought about a more equitable distribution of the tax burden. In 1911 the total taxable valuation of the state was $98,000,000 and through the work of the commission the total in 1914 will approximate $408,000,000.

Arkansas: The endeavor of the commission has been to have the property in the state assessed at approximately fifty per cent of its full value. An investigation caused the commission to conclude that the property of utilities, the assessment of which was to be made by the commission, had previously been assessed at about 30 per cent of its value; by the assessment of the commission it is now valued at from 45 per cent to 50 per cent of full value. In 1908 it was assessed at $51,000,000, and the latest assessment by the commission was a little over $90,000,000.

In like manner the commission raised the valuation of telephone and pipe line companies from 20 per cent of full value to 50 per cent of the same. The original assessment at a million dollars has been increased to three million. Other public service corporations which were in 1908 assessed at two millions were in 1913 assessed at something in excess of six millions of dollars. All property now assessed by the commission was valued in 1908 at $55,000,000; the commission value in 1914 is a little in excess of $102,000,000. The result is more real equality in the distribution of the tax burden.

This commission lacks power of equalizing assessments between individual taxpayers, and as the variation from true value is all the way from 5 per cent to 100 per cent great inequality exists which the commission cannot as yet remedy, but is looking for a more elastic and equitable law at the hands of the legislature which will permit the removal of the inequalities now existing. The commission administers the corporation franchise tax. The commission drafted and submitted to the legislature in 1911 a law providing a franchise tax to be paid by corporations on that part of their capital stock employed in Arkansas. The tax is $\frac{1}{3}$th of one per cent. Under the old law the revenue from this tax was about $65,000; under the new law the amount received is $180,000.

Colorado: Through the work of this commission for the first time in the history of Colorado the law has been enforced which requires property to be assessed at full value. Correspondingly, the tax rate has been reduced from over 40 mills to $13\frac{87}{100}$ mills. In 1913 for the first time there was something like a fair equalization of value among the sixty-three counties. Under the supervision of the commission the county assessors have made a more full and complete listing and valuation of local property. As the result of the work of the commission, co-operating with county assessors and county boards of equalization, the tax burden is more equitably distributed among the different classes of property than ever before.

An instance of an equitable shifting of the tax burden is the following: agricultural lands and improvements have been increased nearly $50,000,000; metalliferous mining property has been increased $28,000,000, while town and city lots and improvements have been reduced $65,000,000. Local public utilities formerly assessed by county assessors at $16,000,000 in round figures were assessed by the commission in 1914 at $68,000,000. The larger public service corporations, such as railroads, etc., under the old law were assessed at approximately $60,000,000, and for the year 1914 by the commission at $195,000,000.

Before the creation of the commission the tendency on the part of the county assessors was to so act in assessing as to shirk the state tax, there being a great rivalry among the county assessors in this particular, and as a result the state had become practically bankrupt. The constitutional limit of state tax is four mills, and as the result of the commission's efforts is now only one and three-tenths mills. The effect is to put the state upon a sound financial basis.

The commission has drafted and secured the enactment of several effective revenue measures. There has been a general toning up in the administration of the assessment laws and in the collection of taxes.

Connecticut: In this state there is only one officer, the tax commissioner, who first took office July 1, 1901. In this state there is separation of the sources of state and local revenue. Under the administration of the commissioner the assessment of buildings and land has been separated. Pursuant to his recommendation the terms of offices of the assessors have been lengthened to three and four years, thus giving the municipalities the benefit of experienced assessors. The educative work performed by the commissioner has produced meetings of assessors, boards of revenue and tax collectors, at which meetings the laws in relation to the duties of each of these classes of officers and methods of administration have been discussed, and the result is that now there are two associations of tax officials which hold annual meetings and have definite programs of speakers. The whole result is educational and is causing the public to take notice of tax matters.

Pursuant to the recommendations of the commissioner, there have been a number of changes in the tax laws of the state whereby the public interest has been promoted. The law in relation to the taxation of forest lands now provides a nominal tax on the value of the land during the period of growth, and a yield tax at the time the timber is cut. Pursuant to the recommendations of a special commission, of which the commissioner was a member, the legislature has changed the law in relation to the assessment of telephone and telegraph companies. The former system of taxing physical properties of the kind has been replaced by a gross earnings tax which yields a larger revenue to the state without unjustly burdening the companies. Another change in the law has abolished the taxation of inheritances of non-resident decedents so far as personal property is concerned.

This commissioner, in so far as his authority extends, has been intelligently active with the result that in many ways the public has been benefited.

Florida: This commission is new, the date of organization being July 10, 1913. As yet it has had little opportunity to produce results. The aim of the commission is to get all property in the state assessed upon a basis of full cash value as the law requires, but it has found that such result will be inexpedient for the present year, 1914, and is operating with the fifty county assessors of the state to get all property assessed upon a basis of fifty per cent of actual value. In succeeding years full value will be the aim. Upon the fifty per cent basis of value the aggregate assessment has been increased from $234,000,000 in the previous year to $295,000,000 in 1914; and correspondingly the state tax levy has been reduced from 7½ mills to 5½ mills. Some effort has been made to equalize values of property among counties and also in some instances the property of a particular kind in single counties. The educational effect of the commission's work is apparent in the fact that the public begins to realize the importance and necessity of a centralized assessment.

Idaho: This is also a new commission, its organization having been made on May 13, 1913. Consequently, it has had but little time within which to produce results. Among the achievements is an estimated amount of $150,000 in taxes saved through the enforcement of the law regarding the collection of unsecured personal property taxes at the time of assessment. The assessment of public utilities after a careful investigation has been increased several mil-

lions of dollars for the purpose of more equally distributing the burden of taxation among the different property owners. A vigorous enforcement of the inheritance tax law has resulted in the collection of a considerable amount of delinquent inheritance or transfer taxes.

Kansas: The first assessment of all property in the state under the control of the commission was in 1908. Total assessment $2,451,560,397. The total assessment of the previous year under the old plan, $425,281,214. Average rate of levy for all purposes in the state 1907, .0469638; average rate of levy for all purposes in the state 1908, .0086548. Average state levy 1907, old plan, .006; average state levy 1908, .0009. The sixth assessment under the control of the commission produced an aggregate of $2,809,801,434, and average rates for state .0012; for all purposes .01048995. The rates it will be observed have not been correspondingly reduced with the increase in valuation, but this is accounted for by the fact that public expenditures in 1913 exceeded those of 1907 by the sum of $8,985,780. In the assessment under the new plan, property has been brought practically to actual value, and the increase in various kinds of property ranges from 300 per cent to 1,000 per cent. Thus property is brought upon an equal plane of assessment.

One important result under the new plan is that the practice of under-assessing valuable properties relatively with less desirable and less valuable properties has been to a great extent eliminated. The educational work of the commission with the local officers has elevated the standard of work and has substituted for a desire under the old plan to under-assess, an earnest effort to actually assess property at its full value.

Another result has been to get upon the tax roll personal property in excess of $300,000,000 never before taxed.

At the instance of the commission, many important amendments have been made to the statutes tending to cause a more equal distribution of the tax burden.

The commission drafted a legacies and successions tax bill, and secured its enactment in 1909, the provisions of which administrated by the commission brought to the general revenue of the state approximately $200,000 per annum. This law after four years of successful operation was in 1913, as the result of partisan politics, repealed absolutely.

A law written by the commission and enacted by the legislature doubled the revenue derived from express companies.

Another law proposed by the commission more than doubled the revenue received from private car companies.

All increases in revenue produced through the work of the commission tend only to equalize the distribution of the tax, and do not unjustly burden the sources of the revenue. The commission has large powers, but has refrained from exercising extreme power except in a few cases of emergency. Its power to remove assessors has only once been exercised and that indirectly by suggesting a resignation; it has several times approved the removal of deputy assessors by the county assessor. The power to reassess districts has been exercised several times, always with good results. In such cases the assessors are appointed by the commission.

Massachusetts: In this state there is only one officer possessing the central authority, the tax commissioner. The department was created in 1891, and since that time there have been but two incumbents of the office. The term of the first commissioner expired by reason of his death in 1899, and the present commissioner has since been in office.

Under this commissioner the taxation of corporations has been made uniform so far as the laws are uniform. The revenue of the commonwealth has been increased. Local assessments have been considerably equalized and the procedure of local boards has been made uniform. The administration of the inheritance tax law has been made even and searching. The chief reason probably for the good which this commissioner has been able to accomplish has been his freedom from molestation on account of partisan politics.

Michigan: The chief benefit from the work of this commission has been in placing upon the assessment rolls a large amount of property which had formerly entirely escaped taxation, and by the exercise of its powers of review of assessments, the correction of innumerable inequalities in individual assessments. During the past three years twenty counties have been completely reassessed by the commission and property placed upon the rolls at its true cash value as required by the constitution and the laws of the state. This procedure was made necessary by the manifest inequalities between individual assessments resulting from the inefficiency of local workers. The commission instituted probably the first searching investigation as to the proper basis for the assessment of the property of transportation companies.

Minnesota: The work of this commission has been very effective and has resulted in the following benefits to the public.

A classified assessment law by means of which in the year 1914 there is the first full and fair assessment of property that has been made in the state in fifty years.

A complete system of assessing mines and mineral property which in operation has increased through the work of the commission the valuation of such property from $64,000,000 in round numbers to $260,000,000.

An increase in the gross earnings tax on railroads from 4 per cent to 5 per cent, the net increased revenue from such property being 25 per cent.

The enactment of a comprehensive and very satisfactory graduated and progressive inheritance tax law, yielding large sums to the state.

Upon the recommendation of the commission the legislature enacted a three mill "money and credits" tax law, as the result of which the revenue from such property has been very materially increased.

Also it has caused the enactment of five per cent gross earnings tax on sleeping car companies, as the result of which the revenue from such companies has been doubled in two years.

Has recommended and procured the passage of a very satisfactory mortgage registry tax law.

It will be observed that this commission has accomplished a great deal. It is in the front rank of working commissions.

Montana: Organized April 1, 1913, so that there has been but little time for results. The powers of this commission are advisory only, but the com-

mission has already done some effective work towards the removal of inequalities in assessments. Much property previously under-assessed has been brought nearer to equality with other property. Has procured the assessment as property, of reserved mineral rights. Has studied the systems and laws of other states carefully, and will recommend constitutional changes permitting classification and effective equalization.

New Hampshire: Organized May 1, 1911. Through the work of this commission many property units, corporations, etc., have been increased in valuation for tax purposes from 100 per cent to 300 per cent. Property valuations as a whole have been increased nearly fifty per cent; the tax rate has been lowered; the general equalization of assessments has brought all property in the state to the basis of actual value.

New Jersey: The board of equalization of taxes is the name of this board, and in 1905 it succeeded the state board of taxation, which had been in existence since 1891. The board is an appellate board and grants remedies to appellants from the action of the local authorities, and has done much of this kind of work. Equalization of all property in the state through co-operation with local authorities has been one of the principal results.

New York: This commission dates from 1896. Particular attention has been given to the enforcement of the special franchises tax law, and the assessment of property thereunder, and to the organization of local assessors, and extending aid to them in order to place upon the assessment rolls all taxable personal property; and also to obtain a more equitable and just assessment of real property and a just and equitable equalization of assessment among the towns and counties of the state. Numerous achievements have resulted, enumeration of which is prevented by lack of space.

North Dakota: This commission is new, dating only from July 1, 1912, but has been busily at work and the results are indicative of increased results as the work of the commission progresses. The getting upon the assessment rolls of much property which escaped before the organization of the commission has had attention, and two items of about sixteen millions each of such escaped property is added, and besides these two items eight or nine millions of similar items. The revenue derived from this heretofore omitted property is estimated at $500,000. The laws of this state do not permit the assessment of property at full value, and an attempt to get the law amended in that particular failed because of the veto of the governor. At the instance of the commission the legislature passed an inheritance tax law which is being administered by the commission. This commission has been very busy with the multitude of duties which necessarily come up in administering tax laws, through hearings, investigations, etc. The duty of equalization is placed elsewhere, but the commission makes recommendations to the state board of equalization.

It is impossible to detail briefly all the accomplishments of an active commission, and this one shows activity, and when it has a little longer life will undoubtedly have accomplished much for the public benefit.

South Dakota: This is one of the newest commissions, having been organized in 1913. The results of its work are:

(1) An educational movement which is causing people to take active and intelligent interest in matters of taxation.

(2) Assessed valuations have been brought up from 25 per cent or less to approximately full value as required by the constitution.

(3) Better equalization from townships to state as a whole, due to equalization according to schedule of valuations for all classes of property.

(4) The commission has recommended the codification of revenue laws, including county assessor plan, and will also recommend submission of six constitution amendments to be voted upon in 1916.

For a new commission it seems to have been busy.

Ohio: Since the organization of this commission in 1910 its accomplishments have been many, too numerous for detailed mention. The most salient thing is the increase in property valuations. Data for 1910 before, and for 1913 after the commission commenced its work given below indicate the increase:

	1910	1913
Value of realty	$1,656,944,631	$4,418,953,299
Value of personalty	827,370,943	2,300,115,670

Rhode Island: The work of this commission dates from February 20, 1912. A valuable educational movement was started by the commission in the organization of a state tax officials' association which meets twice a year. The quite apparent results are a more thorough understanding of tax laws and better assessments and valuations. In many other ways the commission seeks to advise the public upon matters of taxation. Large amounts of intangible property which always escaped taxation, through the efforts of the commission are now bearing a share of the tax burden. Relatively, the tax burden is much more equal than under the old system. Tax lists have been standardized and also the call for financial town meetings and the votes by which the levy is made. Like all active commissions it is doing much good which cannot be stated in detail.

Texas: This commission has slight control over local assessing officers as its power is only advisory. Its accomplishment has been chiefly in getting upon the tax roll the intangible assets of corporations through its own direct valuations and through co-operation with local valuators of property.

Wisconsin: No commission has been more active or has accomplished more than the Wisconsin commission which was the first commission to be given the extraordinary powers before mentioned; in fact, the law of Wisconsin and the work of its commission have been a guide in the reformation of tax systems in other states. It has been able to accomplish more than most other commissions because the legislature of Wisconsin has been liberal in its appropriations, and has given the commission facilities for the gathering of statistical data and expert study of all questions concerning taxation, which privilege has been denied to most other states. It is difficult to briefly summarize the work of the commission, but some of its work and recommendations are as follows:

A change from the gross receipts tax upon railroads to the assessment of railroad property on the advalorem basis, with the application of the average

rate of the general property of the state. An exhaustive investigation into the value of this class of property was made. Later the advalorem system was extended to the property of street railway and telegraph companies.

Pursuant to the recommendation of the commission many beneficial changes in the tax laws have been made by the legislature, and among other enactments have been laws providing for tax on inheritances and an income tax, both of which laws are administered by the commission.

Wisconsin has pioneered the way in many reforms, but the most distinctive perhaps is the replacement of a large part of personal property taxation by an income tax. This law is the first of its kind in the central western states, and is enforced by the commission in a manner never equalled before in the United States in the enforcement of income tax laws, which laws exist in several of the eastern states.

The brevity required here does not permit even a mention of many other accomplishments by this commission.

West Virginia: In this state there is no board, only a single officer whose commission was first issued November 28, 1904. The things accomplished are:

(1) The assessment of property at a more uniform value.

(2) A reduction in the tax rate of more than fifty per cent.

(3) The installation of a uniform system of accounting of public funds, which has saved to the communities hundreds of thousands of dollars.

(4) Has secured a more vigorous enforcement of the laws relating to license taxes, with the consequence that they are paid more promptly and practically everybody who is required under the law to pay such taxes now responds. Under the old system many persons escaped the payment of license taxes.

This commissioner enjoys the unique distinction of being also the commissioner of prohibition, and is charged with the enforcement of the prohibitory laws of the state.

The results above set forth indicate that the modern commissions which have power at all approaching their needs are busy and active bodies. Other states not included might be in the same class, but data for inclusion were not available. One noticeable trend in the work of the commissions is to increase the taxes of corporations and thereby to benefit other property. This inclination should not become effective except in cases where the burden of the tax has been relatively lighter upon the property of corporations than upon other property. The taxes of corporations should not be increased for political reasons, and always in adjusting taxes the probable incidence of the tax should have consideration. The consumers of a product, whether it be transportation, transmission or otherwise, will probably in the end bear a considerable part of the tax advanced by the corporation, and the question whether special classes of con-

sumers should be taxed for the benefit of the public will bear argument.

It should seem that this article would be incomplete without at least a brief reference to the work of the National Tax Association. The national tax conferences held annually under the auspices of the association have brought together scholars, experts, legislators and practical administrators of tax laws upon a common platform for the interchange of views, and the result has been a wonderful progress toward tax reform throughout the whole country. Congressional legislation has in some instances been molded through the direct work of the association or of its members. Constitutions in states have been amended as the result of the educational work of the association so that hard and fast rules which have not permitted a relatively equal distribution of the tax burden have been removed.

Uniformity among the states as regards tax legislation is very desirable, and the association is pioneering the movement, and it is reasonable to expect that the laws of the states will ultimately be molded so as to eliminate to a large extent the unsatisfactory double taxation that is now prevalent because of conflicting state laws. It would be well if all advocates of tax reform would become members and join actively in extending the influence of the association.

SEPARATION OF STATE AND LOCAL REVENUES

By T. S. Adams,

State Tax Commissioner, Madison, Wisconsin.

The history of American state finance in the last thirty years reveals two major movements, one against excessive uniformity, the other against excessive decentralization. It has been found on the one hand that a uniform rate of taxation cannot successfully be applied to all forms of property, and we have the irresistible movement for classification of taxes. It has been found on the other hand that inter-community enterprises or property cannot successfully be taxed by local officials, and we have the inevitable movement towards central assessment and the emergence of the state tax commission.

Surveying these movements, many students of taxation have essayed to project them into the future—always a necessary but a difficult and dangerous thing to do. These prognosticators have evolved as their ideal the separation of the sources of state and local revenues, which Professor Seligman would extend to cover the federal as well as the field of commonwealth finance. The tax whose base is broad is to be given to the superior jurisdiction; the tax whose base is narrow is to be used exclusively by the local jurisdictions. Concretely, in state finance the central government is to take over the tax on insurance companies, on railroads and similar enterprises carried on in all or nearly all parts of the state. The local governments are to be given for their exclusive use the general property tax, with an indefinite measure of home rule, so that they may abolish or modify the tax on personal property. The proposition apparently is that no tax shall be used in common but shall belong exclusively to the jurisdiction to which it has been assigned.

Much of this program is obviously sound and in strict accord with fundamental tendencies, the reality of which cannot be questioned. The only difficulty is to determine its proper limits. Some seven years ago at the first meeting of the National Tax Association[1] the writer suggested that this program, as it was then generally for-

[1] *State and Local Taxation, First National Conference under the Auspices of the National Tax Association*, vol. i, p. 514.

mulated, was extreme, and likely to result in as much harm as good, if not carefully guarded. And events since that time have apparently warranted the position then taken. Professor Seligman, for instance, a few years ago, expressed his approval of "a separation of state and local taxation, with local option on the part of the localities to tax or to exempt from taxation whatever classes of property they saw fit."[2] At the present time Professor Seligman approves of only a very narrow measure of home rule. Other advocates, who a few years ago endorsed the whole program of separation without modification, now suggest the retention of at least a small state tax on general property in order to avoid the danger of extravagance, which unquestionably accompanies the program. The chief danger, however, lies in the possibility that the reaction against the iron rule of uniformity under which most states have labored in the past, may prove excessive and extreme. The principal error of the "separatists," as the writer views it, lies in the proposal or implication utterly to divorce state and local tax jurisdictions.

That there is justice in the demand for some measure of local fiscal freedom, I would be the last to deny. It is now generally recognized that no tax is fit to be applied to all kinds of property and business. By the same token no tax is fit to be applied to all of the diverse territorial districts of the same state. In the average American commonwealth today we have every variety of social life from the city slum to the frontier. This is true even in some of the original thirteen states. We must have territorial classification for the same reason that we must classify the subjects of taxation. One way to establish such territorial classification is by carefully limited local home rule under such regulation that it cannot be abused. Thus the local governments could not safely be given the right to impose new taxes on business as they see fit. Business is now divided among so many jurisdictions that to give each the right to devise new methods of taxing it is merely to invite double and multiple taxation. But the various local districts might safely be given the right to exempt specified classes of personal property and even to select from a small number of specified local taxes, set aside for their potential use by the state legislature.

But the element of centralization is just as essential as the element of local autonomy, and much more necessary at the present

[2] *Political Science Quarterly*, vol. xxii, pp. 312-313.

time. This is particularly true with respect to tax administration. In no domain of public administration are distance, removal from local pressure and local political intrigue, so important as in tax administration. The strength of the assessor is as much increased by outside protection and control as it is weakened by lack of local knowledge. In short, we must have a mixture of local and central control in tax administration.

Many advocates of separation find their ideal in the present divorce of federal from state taxation. Federal taxation has its elements of strength because of this very divorce, but it has its elements of weakness as well, arising from the same origin; and federal taxation would be stronger if it were linked up more closely with state taxation. The administration of the federal inheritance tax during the Spanish War was woefully weak in many respects. Many estates subject to the tax escaped because of the lack of local knowledge. Merely to enforce a federal inheritance tax properly would require the federal government to duplicate administrative machinery which the state governments already possess. On the other hand, at the present time state inheritance taxation is suffering greatly from the lack of control by a superior and higher jurisdiction. All this illustrates the principal truth which it is desired to emphasize here, that the ideal is not separation but joint administration and control; that we could not divorce state and local taxation even if we tried, and we ought not even if we could. The central administration needs local knowledge. The local administration needs backing and control from the central body. Any other plan involves duplication of machinery and excessive cost of administration.

Let me illustrate: There is a widespread notion that the federal government controls interstate commerce and many court decisions have been rendered, which apparently prevent the state governments from taxing the earnings of interstate commerce. But the property of going business concerns, and its earnings, are inseparable. The same property to a successful business concern is worth more than to an unsuccessful business concern, and the state governments taking advantage of this truth have so imposed and defined their property taxes as to touch and tax earnings from interstate commerce. Again a state income tax on earnings derived from interstate commerce might be unconstitutional. But I do not see, under the rulings of the federal courts, how the states could be prevented

from using an excise tax or something akin thereto, measured by or with respect to earnings derived from interstate commerce. The proposition of exclusive jurisdictions fails. Joint and harmonious control is the only true solution.

Moreover, it may be denied in the most emphatic way that it is necessarily a bad thing for two jurisdictions to use the same tax. If the tax rate is already high, it may be unwise for another jurisdiction to clap on a sur-tax. And there are other circumstances in which it would be palpably unwise for two jurisdictions to use the same tax. But just as frequently it is a good thing for two branches of government to use the same basis of taxation. Local criticism helps the central authority to be efficient, and central criticism helps the local administrator to be effective. This is particularly true of the income tax. Central control is needed to prevent double taxation and to protect the fearless assessor; local knowledge is absolutely indispensable to prevent evasion. The federal income tax would be stronger if every state in the union had a state income tax, provided of course that the two administrations worked in harmony and that the aggregate rate were not excessive. The development of the income tax in Europe plainly proves this point. And anyone who has administered an income tax must realize its truth regardless of historical or practical confirmation.

The same is true of the taxation of real estate. Many large manufacturing plants are located in small villages which cannot afford to employ an assessor expert enough to value such property. The cheap way is to have a corps of expert assessors for the whole state. Here are two low grade iron mines side by side. The operating company in the one case has valuable connections with iron furnaces and large consumers and because of this fact it can operate the mine at a profit. The other company has no such connections and cannot mine its ore profitably. How are the two mines to be assessed; and what local assessor is fitted to handle such difficult cases? Again in some thinly settled districts there are mines or large manufacturing plants the taxation of which frequently supplies more money than the local district can utilize wisely. All these things call for intimate linking up of the central and local jurisdictions.

In the writer's opinion it is idle and academic—in the worst sense—to say that we can have general or central supervision over local taxes without the central jurisdiction making active use of the

same basis of taxation. Theoretically, yes—practically, no. What local government in the United States would brook continual control and supervision by a state body which had no vital or real interest in the taxes and assessments concerned? On the other hand, what American legislature would make the appropriations necessary to maintain an effective central commission unless that commission were actively engaged in supervising assessments which the state government itself was to utilize?

The same line of thought applies to the "state equalization." Much fun has been poked at this in the past, because in most places the state equalization was made by an *exofficio* board which had no serious interest in, and no real knowledge of, the work it was called upon to perform. But just as soon as the state equalization is undertaken seriously it becomes the opening wedge of tax reform. In a large number of states in which the greatest improvement in tax administration has been made in the last five years, the necessity of making a state equalization has proved the beginning of tax reform. The knowledge acquired in this work is exceedingly valuable to local officials and frequently can be obtained in no other way.

Both the state and local governments need to use the same basis of taxation not only to secure administrative coöperation, but also to prevent extravagance on the part of the state government. To give the taxation of the large corporations exclusively to the state government for its support is good neither for the corporations nor for the state government. It concentrates corporate influence at the state capitol. If the corporations are unusually strong they may be powerful enough to keep state expenditures down and thus get off with an unfairly small share of the general tax burden. If they are weak, special corporation taxes may be pushed unjustifiably high and the state government spend too much money. Above all things, the state government needs the criticism and check that come from the the farmer, the home owner and other small taxpayers, who constitute the majority of the electorate. To deprive this class of its immediate interest in the expenditures of the state government is openly and deliberately inviting extravagance.

This last assertion is probably proved by the financial history of the last decade. I cannot speak with certainty because statistics are not available, but I venture to predict that when the next census volume on wealth, debt and taxation appears, contrasting

state expenditures in 1913 with those in 1902–1903, it will be found that the increase in expenditures has been greatest in those states which either have achieved separation or have approached it most closely. New York, California, New Jersey and the other states in which separation has been most nearly achieved will be found, I believe, greatly to have outstripped their competitors in rapid expenditure.

This is the deepest vice of separation—it does not separate. When the sources of revenue are segregated, the state government is apt to find itself for a short period on "Easy Street," with ample revenue easily secured. But the spending ability of the average state legislature is great and within a short time the new sources of revenue are likely to be exhausted and the state legislature to find an irresistible temptation to lay on a small state tax once more. Substantially this has happened in New York and California. It is irrelevant to say that in these cases the state tax has been necessitated by extraordinary expenditures. The answer is that the absence of a state tax levy invites such expenditures.

Finally it should be noted that neither experience nor theory warrants the belief that the mere abolition of a state tax will greatly improve assessment work. In the tax bill of the average American taxpayer the state tax accounts for only 11 per cent of the total. The remainder, 89 per cent, represents county and local taxes, and it is primarily to avoid these that the assessor is subjected to the pressure which so frequently makes his work inefficient. Many, if not most, of the states which have made marked improvement in assessment work during the last five years are states with a comparatively high state tax and using the device of state equalization. Arizona, Colorado, Minnesota, Michigan, Ohio, West Virginia and Washington are merely some of the states without "separation" which have greatly improved their assessment work in the past five years. In Wisconsin for a number of years the state tax practically disappeared. During those years little improvement was marked in the local assessments. Later the state tax was increased and the local assessment work rapidly improved. The city of Milwaukee went to a full value basis in the latter period when the state tax was quite an important factor. In states like Maryland and Virginia where there is no central control[3] or state equalization and where the ratio of true to as-

[3] In Maryland, since the recent establishment of a strong state tax commission, this is no longer true.

sessed value varies from twenty to ninety per cent among the various counties, the imposition of a high tax is obviously an important factor in demoralizing local assessments. But what these states need is not separation but central control. Pennsylvania has had something akin to separation for many years. The quality of its local assessment work is, from all the writer can learn, below rather than above the average.

If space permitted it would be desirable to point out in detail that for the state government to take over enough sources of revenue to accomplish separation would in the average state deprive the local government of property or other sources of taxation which they cannot afford to spare. A realization of this fact, I understand, prevented a recommendation of separation in the recent admirable report of the Kentucky tax commission. The truth is that while there is no very rigid or exact connection between the property within a given jurisdiction and the necessary governmental expenses of that jurisdiction, there is a very real connection of this kind which cannot be wholly disregarded. There is more reason perhaps for the retention by the state government of all taxes on steam railroads than in the case of any other form of property or industry. But even in this case serious injury may be done to particular local jurisdictions. Take a small city or village in which important railroad shops are located: They may constitute and frequently do, a large part of the property of this place, and the principal expenses of the local government may arise from the provision of proper schooling and fire protection for the district occupied by the railroad shops. To deprive this jurisdiction of all taxes from this source is inequitable and unwise. In short, while there are some taxes, including that on steam railroads, which are particularly adapted to state use, modifications and exceptions must be made even with reference to this tax and when we further extend the sphere of exclusive state taxes we almost always encounter serious trouble.

In conclusion I may be allowed to quote a summarized statement of this problem written seven years ago. Since that time I have watched the development of tax administration carefully and its trend during the last seven years seems strongly to confirm the opinions expressed at that time. There is one possible exception to this. The progress of centralization, and in particular the extension of powers of the state tax commission, will possibly receive a tem-

porary check in the next few years. This merely means that the task of introducing efficiency, certainty and equity into local assessments is an unpopular and difficult one. There is every confirmation of the proposition that to accomplish such a reform there must be (except for large cities) a large element of outside pressure emanating from central authority, such as a tax commission. But owing to the rapid expansion in expenditures during the last few years and the consequent increase of taxes, the progress of this reform will possibly be slightly checked in the near future. The movement is inevitable, however, and in due course will take its way forward. The summarized statement made several years ago at the first meeting of the National Tax Association follows:

1. The state legislature should, in my opinion, without reference to the local divisions and without respect for impossible plans of local fiscal democracy, abolish the personal property tax and introduce a substitute therefor, if one can be devised.

2. If this is impracticable, they should introduce at once some scheme of limited local option which will permit particular districts to abolish the personal property tax. No plan should be entertained, however, which will interfere with central supervision of assessments and central control over county equalizations.

3. This carefully limited measure of local option should be introduced without reference to the separation of state and local revenues.

4. Similarly, the question of what sources of revenue should be retained by the state ought to be settled absolutely on its merits without reference to home rule, by a careful study of tax jurisdictions and the connection between property or business and the expenses of local government. Doubtful points should be decided in favor of the local jurisdictions; and equitable apportionment should not be strained one inch in order merely to supply the state with revenue enough to get along without the levy of direct property taxes. If, after the apportionment of sources between state and local governments, the state has not sufficient special revenue to pay its expenses, let the deficit be raised by a state tax upon real estate, including in real estate the corporate and commercial values assigned to the local governments. The evils of an equalization based upon real estate are less than the evils of the unconscious, haphazard equalization involved in the retention by the state of a number of revenues which more logically belong to the local divisions.

5. Finally, I assert with some confidence, that if the equalization is confined to real estate, and if it is made by an efficient tax commission which takes its work seriously, it is not a curse but a blessing. In the first place, the payment of some direct state tax stimulates the interest of the citizen in the expenditures of the state government. In the second place, the equalization can be made, with all necessary accuracy, so accurately in fact that no fair-minded

person, after studing thoroughly the conditions of the problem, will question its substantial accuracy as between county and county. It can be made without prohibitive expense—it is not necessary, as is sometimes asserted, to reassess every parcel of real estate in the commonwealth to get at the truth. And in gathering the data upon which to base its conclusions, the tax commission will obtain indispensable information concerning local assessment work, besides securing material absolutely necessary for the proper performance of the work of county equalization. The county equalizations are, in the aggregate, more important than the state equalization; but at the present time they are woefully inaccurate. The county officials who make these equalizations are, as a rule, destitute of reliable data upon which to base their apportionments, and, like the local assessors, they will never do their work efficiently until they are forced to do so by central supervision and state aid. Reform in these matters must come from without.

TAXATION OF PUBLIC UTILITIES

By Delos F. Wilcox,

Franchise Expert, New York City.

An intelligent discussion of this subject requires a preliminary analysis of the nature of public utilities and their relations to governmental bodies. If a public utility is to be regarded as a private enterprise, operated primarily for profit, subject to the ordinary restrictions imposed upon other profit-seeking enterprises, no objection can be raised to the levying of taxes upon its property or earnings in the same way that similar taxes are to be levied on the property or earnings of other private undertakings. On the other hand, if public utilities are to be regarded as agencies of the state or the municipality, performing strictly public services under stringent public regulation, the levying of taxes upon their property or earnings is quite another matter. At this moment the relations between public utilities and governmental bodies are in a transition stage, and, therefore, it is not easy to formulate a rule in regard to the taxation of utilities that will be universally recognized as correct in theory or practice. In my judgment, however, we can assume that the patent and inevitable tendency in the development of the relations between the utilities and the public is toward the recognition and full establishment of the agency theory.

Formerly, public utility investments were both in theory and in practice largely speculative, and the utilities were regulated very little. With the rapid growth of the cities and the disproportionate increase in the importance of public utilities, there has come a pretty general recognition of the fact that whatever may have been the nature of such utilities when they were first initiated, they have now become predominantly and essentially public. This country had come to a pass where thoughtful men recognized that the only alternative open for the future was public ownership or strict public regulation. The public service commission movement, which has been sweeping over the country during the past seven or eight years, has gone far toward establishing in the law and practice of the land the fact that these utilities, even where owned and operated by private

individuals or corporations, are public agencies performing public functions.

It would be inaccurate to say that the principle of public agency has yet been completely established or even universally recognized as proper. For example, the courts have held that public service corporations are entitled to earn a reasonable return upon the present fair value of their property, including in such value the present value of their land holdings, irrespective of the original cost of such lands. This rule has been somewhat restricted in certain recent cases, and the cost-of-reproduction theory, which for a number of years received widespread recognition in connection with the valuation of public utility properties for ratemaking, has recently been subjected to severe criticism by various courts and commissions. The reproduction-cost theory and the present-value-of-land theory are inconsistent with the public agency theory and in so far as they *continue* to hold their place in the practice of the country, this fact must be taken into consideration in the discussion of the taxation of public utilities.

Assuming that the public agency theory is bound to prevail in the long run, we are thrown back upon a consideration of the propriety of exploiting publicly owned utilities for the relief of taxation. For the principles governing the operation of privately owned utilities subject to stringent public regulation, so far as they relate to the burdens imposed upon the consumers for the benefit of the taxpaying public, should not differ from the principles applying to the operation of publicly owned utilities.

So long as public utilities were luxuries for the use and advantage of a small minority of the people, it could be urged with at least a show of reason that such utilities ought to pay not only ordinary taxes upon their tangible property but also special taxes or compensation for their special privileges in public rights of way. Certainly, it would seem unreasonable that a service designed for the use and profit of a small minority of the people should be given special privileges for the use of public property, to the manifest inconvenience and disadvantage of the great majority of the citizens of a city.

At the present time, however, the standard utilities, such as local transit, water supply, gas, electricity for light, heat and power, the telephone, and transportation terminals, have come to be necessities in the common life of the general public. They are no longer

mere luxuries. Moreover, they are not only necessary to the great majority of the individual citizens, but their proper development now has a fundamental and far-reaching influence upon the organic development of each urban community as a whole. The public nature of these services rests both upon their universality and upon their community influence. Under these conditions it seems hardly necessary to argue that the governmental bodies should not seek to make profits out of such enterprises for the relief of general taxation. To do so would be to tax public property and public agencies.

Even if we assume the ultimate establishment of the public agency theory in universal practice, we shall still have to consider just what that means. When we escape from the theory that public utilities are luxuries operated for profit, we start off on a long road with many possible stopping places. Many public services are even now rendered free to those who have need of them. While it is a rather far cry from the assertion that public utilities should not be operated for profit to the prophecy that some time they will be operated entirely at the expense of the general taxpayers, the road from one point to the other in public policy is a direct one. At the present time, it is customary to say that public utilities ought not to be operated for profit, but that they should be treated as self-sustaining business enterprises rendering their services at cost. Yet, in practice, while the rearguard of the utilities lingers in the realm of profitable exploitation, the vanguard has reached beyond the neutral area into the field of governmental subsidy. Indeed, it requires careful analysis to determine just what it takes to make a utility fully self-sustaining. For example, while the writer has strongly opposed any system of profit-making or special taxation that would result in taking a portion of the earnings of the utility out of the business, he has with equal urgency favored a plan by which public utilities should be made to pay for themselves out of earnings. In other words, according to his definition, a public utility is fully self-sustaining only in case its earnings are sufficient to pay operating expenses, interest on investment and also amortization charges. This definition has a leaning toward conservatism. It is based upon the theory that the capital invested in a public utility should be retired within a reasonable time, partly because the physical property may become obsolete and partly because a utility that has paid for itself will be in a better position to render increased service at reduced

cost, in accordance with the inevitable trend of public need as time goes on.

It is possible, however, to regard a utility as self-sustaining where it merely pays the expenses of operation plus depreciation and interest charges, leaving the capital itself either to be regarded as a permanent investment or to be amortized out of the proceeds of taxation. So long as utilities are owned and operated by private corporations subject to commission regulation, the tendency seems to be to regard the investment as a permanent one and therefore to make no provision in the rates for amortization. Under public ownership, on the other hand, no clear tendency can be traced. In some cases both interest and sinking fund on public utility debts are taken care of out of taxes as a general offset for the direct services rendered by the utility to other departments of the government. Sometimes utility bonds are retired out of earnings, and in some cases even the extensions of the plant itself are made at the expense of the consumers. The rule is, however, that publicly owned utilities do not pay taxes on their property or earnings in the same way that privately owned utilities do. At the present time there is a tendency to require publicly owned utilities to render a strict account of themselves, including an estimate of the amount of taxes which they would have to pay if they were in private hands. This is merely for the purposes of comparison and public information.

We may mark several stages in public utility development as follows:

1. Public utilities operated for profit and, in case of private ownership, accompanied by various forms of taxation and partnership intended to give the public a share in the profits.

2. Public utilities operated at cost, including in cost ordinary taxes and interest, and amortization charges sufficient to retire the investment within a reasonable fixed period.

3. Public utilities operated at cost, including in cost ordinary taxes and interest charges, but no amortization.

4. Public utilities operated at cost, including in cost interest charges, but excluding both amortization charges and general taxes.

5. Public utilities operated at cost, with the help of subsidies from taxation to take care of interest charges.

6. Public utilities operated according to a fixed standard of rates and service, with deficits in operating expenses made up out of taxation.

7. Public utilities operated at the expense of the taxpayers, all service being rendered free of charge.

The public agency theory is controlling in all of the stages just enumerated except the first. This first stage may be regarded as a "left over." It is a relic of the past. At the same time, some individual utilities are so surrounded by tradition and so fortified by contracts and judicial decisions that no one can foresee how long they may linger in this first stage. So far and so long as public utilities continue to be operated on a speculative basis in accordance with the ancient traditions, taxation may be regarded as a legitimate means of securing public revenue and also as an instrument for shrinking the values of special privileges that have slipped out of public control in past years through the improvidence or corruption of public officials. Taxation should certainly be regarded as one of the most effective weapons the state has for subduing the pride and independence of the perpetual franchise barons. Relief from various forms of taxation may be used properly and effectively as a means of inducing public utility franchise holders to accept a readjustment of their contractual rights with the public, wherever such a readjustment seems to be of vital public necessity. Moreover, any income which the public may derive from special forms of taxation of privately owned public utilities ought, in all good conscience, to be put away into a "war-chest" to help in the inevitable campaign for the conquest of the refractory utility corporations. By "conquest" I mean acquisition, and by "campaign" I mean the process of acquisition at a reasonable price.

Of primary interest in the discussion of the taxation of public utilities is the question as to whether or not taxes should be levied on land devoted to public use in connection with the supply of a utility. One of the chief points at which the agency theory has been limited by the trend of court decisions is in the matter of the value of land upon which public service corporations are entitled to a fair return. As the law now stands, the private owners of a public utility are entitled to the benefit of the increment in land values. One of the tax reform programs that is receiving wide support calls for the gradual increase of the tax on land values and the gradual elimination of other taxes. This policy, if carried through to the final limit, would have the effect of taking away all or most of the selling value of land, and would therefore deprive public utility owners, by means of taxation, of the increment in land value in just the same way as it would

deprive other land owners of such increment. If the gradual stiffening of the land tax is to be adopted as a permanent public policy, there certainly is no reason why the private owners of public utilities should be exempted from its effects. Therefore, it becomes important to consider just what is the effect of the taxation of land devoted to public use in connection with a public utility. Under monopoly conditions, if the rate charged for the service is a fixed sum, such as the five-cent street car fare, it is obvious that the exemption of public utility land from taxation would redound to the benefit of the owners of the public utility and not to its patrons. If, instead of a predetermined, fixed rate for the service, a corporation is permitted to charge "all the traffic will bear," then, also, the exemption of the company's land from taxation would result in a direct benefit to the owners rather than to the patrons of the utility. If, however, the utility is subject to continuing regulation, on the theory that it will be allowed to earn a fair return upon a fair present value of the property and no more, then the exemption from taxation of land occupied by the utility would result in a reduction of rates or an improvement of service and in either case would redound to the benefit of the utility's patrons, and would not confer any particular advantage upon the owners of the utility. This result follows from the fact that under the system of continuous regulation all taxes are made a part of operating expenses. Therefore, it would appear that in so far as public utilities are to be subject to constant and effective regulation in the matter of rates and charges, the correct policy would be to exempt their lands from taxation, on the same theory that any other lands devoted to public use are so exempted. The fact that the owners of the utilities are considered to be entitled to the increment in land values has no bearing upon the subject, for the taxation or exemption of the particular lands owned by the public utilities would under conditions of perfect regulation be a matter of interest to the consumers on the one hand and the general taxpayers on the other, but not to the owners of the utility as such.

What has just been said in regard to the land tax applies with equal force to the special franchise or easement tax so far as this tax applies to intangibles. The special franchise tax of New York, however, defines the intangible right to use the street as land, and the tracks, poles, wires, pipes and other fixtures in the street as improvements upon land, analogous to the buildings on land not situated

within street limits. The taxation of buildings and street fixtures devoted to public use by a public utility has all of the disadvantages of the taxation of improvements generally, except that in cases where the utility is not subject to continuous public regulation as to rates the taxation of these portions of the company's property cannot be shifted to the shoulders of the consumers. It would seem, therefore, that the special franchise tax, as applied either to intangibles or to tangibles, is of no value as a restrictive measure except in the case of public utilities which are not subject to public regulation or which have their rates established by contract. Under all other circumstances, the tax upon public utility real estate, whether in the streets or not, is to be considered merely as a revenue measure. If the occupation of land and the use of buildings and other improvements upon land are considered as a part of the legitimate cost of a self-sustaining business, then public utilities may be required to contribute their share to the public treasury to the same extent that other occupiers of land and buildings are required to contribute. Exemption from ordinary real estate taxes will gradually be brought about as public utility services come to be recognized as more and more public in character.

The personal property tax, the corporate franchise tax, and the tax on gross or net earnings, as applied to public utilities, are to be regarded as relics of the time when public service corporations, in spite of their name, were not regarded as agencies performing public functions. These kinds of taxes cannot be justified except as they apply to public utilities still lingering in the speculative profit-seeking stage. To the extent that privately owned utilities are brought under effective public regulation, these taxes become as illogical as they would be if applied to municipal water works, docks, markets and lighting plants.

We must now consider that group of taxes and service charges which in reality represent legitimate items of operating cost. This group includes the obligation to pave and repair streets (or in lieu thereof the paving commutation tax), sprinkling and snow removal charges, license fees, pole taxes, bridge tolls, and so forth. The theory of these taxes and charges is either that the public utility has the special use of certain public property to the disadvantage of other users and should therefore be required to pay an equalizing tax or rental, or that in the course of its operations a public utility actually

destroys portions of the street which it ought to replace, or compels the general municipal authorities to incur expenses which the utility ought to stand. In so far as it can be shown that the presence of street railway tracks in a street destroys the pavement or requires the widening of the roadway for the accommodation of general traffic, the additional costs involved may properly be charged to the street railway if that utility is to be self-sustaining. In like manner, as the operation of cars increases the dust nuisance, a part of the cost of oiling or sprinkling the streets may properly be charged to the street railway. The same reasoning applies to the removal of snow and ice. Furthermore, in all cases, the street railway or other utility should be charged with the actual damages to persons or property caused by the construction or operation of the utility in the streets. The erection of poles and wires naturally interferes with and damages to a certain extent the shade trees along the streets, and the laying of conduits or water or gas pipes may also damage trees and injure pavements. Whether these various extra expenses and costs shall be paid directly by the utility, or whether they shall be paid in the form of commutation taxes, is immaterial to this discussion. In either case, they form a legitimate part of the operating expenses and cost of service of the utility. What forms they shall take is a question of public expediency and public policy in each state or city.

Finally, we should consider those forms of forced contributions which, though matters of contract, are nevertheless for all practical purposes in the nature of a tax imposed upon public utility corporations as the price of their franchise. They include various forms of free services and division of profits. Where a city enters into a co-partnership scheme with a private corporation, with a provision that the city shall have a certain share of the net earnings of the enterprise, it is to be noted that there is a tendency for the city to abandon the public agency theory and to ally itself with the private corporation as a profit seeker. In so far as profit sharing and other forms of contractual payments are adopted as the most expedient means under the particular circumstances for securing to the city a fund to be used in the purchase of the utility plant, such modes of securing money from public utilities seem to be entirely justified and not fundamentally inconsistent with the public agency theory.

In concluding the discussion of this complex and somewhat elusive subject, we should reëmphasize the following principles:

1. In so far as public utilities remain on a speculative basis, and continue in the enjoyment of special privileges protected by judicial decisions and contractual rights, taxation may be resorted to both as a revenue measure and as a weapon for regaining public control over such utilities.

2. In so far as privately owned public utilities are subject to adequate continuous public regulation as to service and rates, the principles of taxation as applied to them should be the same as the principles of taxation and profitmaking applied to publicly owned utilities.

3. Whatever revenue public bodies may derive from public utility taxes or contributions, except to the extent that such taxes and contributions may be regarded as a part of the actual and legitimate cost of service, should be used as a fund for amortizing, first, franchise and other intangible values and, second, the capital investment in the physical property of the utilities.

4. As the public agency theory of public utility operation comes to be more widely recognized and more fully established, the tendency will undoubtedly be to diminish and finally eliminate public utility taxes and contributions and, *per contra*, to subsidize public utilities out of taxation to the end that a higher standard of service may be rendered at a fixed or diminishing charge to the public.

THE RECENT INCREASE IN LAND VALUES

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1. The Significance of Land Value Increase

The recent increase in land values is of immense economic and social significance, because of the intimate relation which exists between this phenomenon, and that most pressing of modern economic dilemmas,—the rising cost of living. Although the pressure of increased living costs is keenly felt on every hand, few people realize what an important part the increase of land values plays in the upward movement of prices.

Since 1896 prices have advanced unequally. Land values have apparently played a large part in this inequality. A study of retail prices shows that among food products, prices rose most rapidly in the case of meat, dairy products and cereals, which were derived directly from the land. The prices of raw materials show a like relation. Timber, grain, and other raw materials obtained directly from the land, have risen rapidly in price, while semi-manufactured materials have increased less rapidly, or have decreased in price.

The prices of those materials most directly secured from the land have risen fastest. Does it follow, logically, that the increase in land values has been more marked than the increase in the prices of the other factors entering into production?

A study of the cost of labor, capital, management, land and the changing cost of the chief items of expense in production shows that among all of the value increases reported during the past two decades, the increases in land values hold first place.[1] The cost of labor and of capital have increased only slightly in comparison. There is no parallel in any other field, to the advance in those land values upon which civilization most directly depends—timber lands, fertile agricultural land, and land in large commercial and industrial centers. The recent rise in land values has been little short of revolutionary.

[1] *Reducing the Cost of Living*, Scott Nearing. Philadelphia: Geo. W. Jacobs and Co. Chapters 8 to 15 inclusive.

It cannot fail to leave a profound impress upon the economic problems of the day.

The figures for land value increase are available chiefly for farm lands, city land and timber land.[2] Though the material in these three fields is far from complete, it is sufficient to give some idea of the extent of land value increases.

2. Farm Land Values

The facts pertaining to the increase in farm values are readily accessible. The Census Bureau, since 1850, has gone into great detail in its discussion of farm values. The censuses of 1900 and 1910 give a separate statement of the value of land and of the value of buildings on the farms of the United States. Previous to 1900, land and buildings were grouped together. The last two censuses therefore furnish the only figures showing the value of farm land separate from the value of the improvements on the land. For those two censuses, however, the figures cover the value of farm land over the entire country.

The figures of the thirteenth census show that, during the ten years between 1900 and 1910, the value of all farm land in the United States increased from $13,058,000,000 to $28,476,000,000. The percentage of increase is 118.1 per cent. Thus in one decade, the value of the farm land in the United States was more than doubled.

Every section of the United States shared in this farm land increase—the smallest rise in farm land value was in the Middle Atlantic States, 19.9 per cent. The greatest increase was in the Mountain States, 313.4 per cent. For the other sections of the country, the increases were:—New England States, 34.8 per cent; East North Central States, 82.0 per cent; East South Central States, 87.4 per cent; South Atlantic States, 109.3 per cent; West North Central States, 158.2 per cent; Pacific States, 166.5 per cent, and West South Central States, 184.8 per cent. The smallest increase in total value is reported from the New England States ($98,673,621); the largest is reported from the West North Central States ($6,159,683,640). Thus the increase in the value of the land in the West North Central States alone was equal to almost exactly half of the total value of all of the farm lands in the United States in 1900.

[2] "The Increase of American Land Values," *Popular Science Monthly*, November, 1913, pp. 491–505.

When the figures for farm land increase are analyzed by states, it becomes more apparent that the increasing values are sectional rather than general. For instance, among the New England States—New Hampshire, Vermont, and Massachusetts report increases in land value between 20 and 30 per cent; the increase for Connecticut was 37 per cent; for Rhode Island, 12 per cent, and for Maine, 75 per cent. The ratio of increase in the Middle States is less than that in New England. The figures for New York are 48 per cent; New Jersey, 33 per cent; Pennsylvania, 9 per cent. The increase for Pennsylvania is the smallest shown by any state between 1900 and 1910. The ratio of increase among the East North Central States varies from 45 per cent in Michigan, to 104 per cent in Illinois. The variations in the West North Central States are much greater. The increase in farm land value in Minnesota was 82 per cent, while in South Dakota, it was 377 per cent. Among the South Atlantic States—Delaware, Maryland, Virginia, and West Virginia report increases of less than 100 per cent in farm land values. Kentucky and Tennessee, from the East South Central group, and Louisiana from the West South Central group also report land value increases of less than 100 per cent. All of the other Southern States show increases of more than 100 per cent. In the lead are Florida, with an increase of 204 per cent, and Oklahoma, with an increase of 334 per cent. Only three among the Mountain and Pacific States report increases in farm land values of less than 200 per cent. They were Utah, Nevada, and California. The increase in farm land values in Colorado was 302 per cent, in Montana, 330 per cent; in Washington, 421 per cent; in New Mexico, 470 per cent; and in Idaho, 519 per cent.

These figures for increasing farm values take on additional significance when a comparison is made with the acreage of the farms. During the decade between 1900 and 1910, when the value of land in American farms increased 118 per cent, the total acreage of improved farm land increased only 15.4 per cent. Nowhere is the increase in the improved farm land acreage in any sense commensurate with the increase in farm land values. The New England States and the Middle Atlantic States, with increases of ninety-eight and two hundred forty-two millions respectively in farm land values, report decreases in the acreage in improved farm land. The decrease for New England was 10.8 per cent, and for the Middle Atlantic

States, 4.8 per cent. The East North Central States, with three and a quarter billions increase in farm land values, report an increase in improved farm land acreage of only 2.6 per cent; while the West North Central States, with their stupendous six billions of farm land increase (158.2 per cent), show an increase in the acreage of improved farm land of only 21.1 per cent. The increases in improved acreage for the other sections of the country are: South Atlantic States, 5.2 per cent; East South Central States, 9.2 per cent; West South Central, 46.5 per cent; Mountain States, 89.4 per cent, and Pacific States, 17.5 per cent. If these figures for increase in improved farm land acreage are compared with the figures given in the preceding paragraph, showing increase in farm land values, the differences are astounding. Values have increased far faster than acreage.

The census tables showing the increasing per acre value of all farm land, and of improved farm land, fully bear out the suggestions offered by the contrast between farm land values and farm land acreage. The value of land in farms is increasing far more rapidly than the area in farms.

A further analysis of the crop yields per acre fails to show any increasing yields for the increasing farm land values. Neither cereal crops nor meat products have greatly increased in the per acre yield, during the past ten years. Indeed, in a few cases, the per acre yield in cereal crops has actually decreased. Meanwhile the value per acre has been moving rapidly upward.

The elaborate census figures on farm land values are unavailable for comparison previous to 1900, because of the failure in earlier censuses to separate the value of farm lands from the value of farm buildings. The last two censuses, by making this separation, have made possible a statement of the phenomenal farm land value increase which occurred during the first decade of the twentieth century.

3. City Land Values

A scientific statement of the increase in city land values is impossible. During many years, persons interested in land taxation have been compiling individual instances of the increase in city land values.[3] It is only within recent years that official figures have been

[3] See, for example, *The A B C of Taxation*, C. B. Fillebrown. New York: Doubleday, Page and Co., 1912.

sufficiently definite and extensive to warrant even the most general conclusions.

There seems to be no question but that city lands, are, on the whole, increasing in value. The extent of the increase is suggested by the records which are available in that rapidly growing group of cities which publish separate assessments for land values and for improvement values. The figures showing city land value assessments are far from accurate. The failure to adopt any standard method of assessment has made comparison between the figures for different cities difficult or impossible. The best idea of the increase in city land values can be gained from an examination of the facts for a number of individual cities.

The most complete contemporary figures are published in the report of the Commissioners of Taxes and Assessments of the City of New York. A separate assessment of land and improvements has been made in New York only since July 1, 1906. At that date, the ordinary land value for Greater New York was $3,367,233,746. On January 1, 1914, this land value had been increased to $4,602,852,107.[4] The tentative valuation for 1915 is $4,778,836,786.[5] During a period of approximately eight years, in which there has been no increase in the size of the city, the land values of New York have increased about one and a quarter billions—an amount equal to rather more than a third of the total land values for 1906.

The increase in the land values of New York City has been very unevenly distributed among the different boroughs. In the Borough of Manhattan, which reports more than two-thirds of the total land values for the entire city, the increase between 1906 and 1915 has been only about one-fifth; in the Borough of the Bronx, the increase is equal to three-quarters of the land values for 1906; in the Borough of Brooklyn, the increase has been slightly less than half; in the Borough of Queens, the increase has been almost four-fold; in the Borough of Richmond, it is slightly more than double.

The figures for Boston[6] land values are available between 1889

[4] Report of Commissioners of Taxes and Assessments of the City of New York, 1914.

[5] Letter from the Department of Taxes and Assessments, October 19, 1914.

[6] Annual Report of the Assessing Department for the year 1913. City of Boston Printing Department, 1914, p. 18.

and 1914. In 1889, the total land value was $350,404,975, and in 1914, the value was $722,736,200. The Boston land values have, therefore, doubled in twenty-four years. Between 1906 and 1913, the Boston land values increased about 12 per cent. While there has been no time at which the rise in Boston land values has been extremely rapid, there is no record of a year when the land values of the city have decreased.

The figures for Washington, D. C.,[7] available between 1889 and 1914, show an increase from $56,585,904 to $169,212,099. This three-fold increase has occurred in the same period during which the Boston land values doubled. The rise in land values in Washington has been particularly irregular. In 1894, the land values were reported as $112,830,383; in 1905, the values were $118,912,580.

Buffalo reports a separation of land and improvement values from 1907 to 1914. In 1907, the total land value was $164,693,675; in 1914, $177,990,040.[8] The increase in this case is negligible.

The land value figures for Milwaukee show an increase between 1890 and 1910, from $52,385,960 to $99,502,195. Since 1910, the assessments in Milwaukee have been made upon full valuation, instead of the former 60 per cent; hence the figures since that date are not strictly comparable.[9]

The land values and improvement values in Kansas City, Missouri, have been separated since 1891. In that year, the land values of the city were $53,171,420; in 1914, the land values were $72,176,920. The increase was thus approximately two-fifths of the 1891 land values.[10]

The records from western cities show more rapid rates of increase than those in the East. In Dallas, Texas, the city land value was $16,477,225 for 1907; and $51,996,900 for 1914.[11] The figures from Portland, Oregon, show a land value, in 1900, of $39,512,150. The value for 1914 was $54,832,600. In San Francisco, the land value in 1905, was $304,135,385; for 1914, $304,579,974. The figures for San Francisco are, of course, influenced by the losses due to the

[7] Letter from the Assessor of the District of Columbia, October 20, 1914.

[8] Letter from the Department of Assessment, Buffalo, New York, October, 1914.

[9] Letter from the Tax Commissioner of Milwaukee, December 31, 1912.

[10] Letter from the City Assessor of Kansas City, Missouri, October 24, 1914.

[11] Letter from the Commissioner of Finance and Revenue, October 22, 1914.

earthquake.[12] On the whole, and with a few exceptions, it appears that the ratio of increase for city land values has been far less than that for farm land values.

4. Timber Land Values.

A recent study made by the federal government has thrown considerable light upon the question of timber land values. For years, wholesale price lists have shown a marked increase in the values of lumber and lumber products. This rise in the price of the raw material is a striking reflection of the increased price of the land from which timber is secured.

The federal investigators encountered great difficulty in reaching definite conclusions regarding the increase in timber land values. One piece of timber land in a given locality frequently increased in value much more rapidly than another piece. The situation with respect to transportation facilities, the kind of lumber, the conditions under which the owner was willing to dispose of the tract—all had a marked influence upon the per acre value of the timber land.

Despite the impossibility of measuring accurately the average amount of the advance in timber land values, due to the extreme variations of "location, species, quality and stand," the federal report derives certain general statements which, while not applying to any one individual tract, bespeak the prevailing conditions over a considerable territory.

The men who compiled the federal report comment with astonishment upon the increase in timber land values, generally.

> That the increase has been nothing less than enormous is recognized by the men most familiar with the business. In speaking of the rise of prices in the last twenty years, they refer to changes from 12½ cents to $4 a thousand; from 10 cents to $3 a thousand; from $5 to $20 an acre; 300 per cent in ten years; from $1.50 to $20 an acre; from 50 cents to $3 a thousand. These figures are for southern pine. In cypress: from 15 cents to $5 a thousand. In the Lake states men in the business similarly speak of increases from "no market value" (hemlock and hardwoods) $4 to $10 a thousand; from $2 to $6 a thousand (hardwoods). In the Pacific-Northwest similar general statements are made of rises in value, such as 15 cents to $2.50 a thousand, 10 cents to $2.50 a thousand; "no market value" to $2.50 a thousand; 75 cents to $2.50 a thousand.[13]

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[12] Letter from the Assessor's Office, San Francisco, October 22, 1914.

[13] *The Lumber Industry, Part 1, Standing Timber.* Washington: Government Printing Office, 1913, p. 25.

There is a widespread recognition among initiated timber experts of the immensity of the timber land value increase. The obstacles to an accurate estimate of timber land value increases are patent. Nevertheless, the federal investigators are willing to commit themselves to certain general propositions. Speaking in broad terms, and for the ten year period ending in 1907 or 1908 with the industrial depression, it seems that "the value of a given piece of southern pine taken at random is likely to have increased in any ratio from threefold to tenfold."[14] Numerous instances were discovered where the increase was much more rapid than these figures show, as for example, when tracts which could be purchased in 1896 or 1898 at 10 to 15 cents a thousand feet upon the stump, had advanced twenty or even thirty fold in ten years. The figures from the lake region tend to show that

> the general ratio of advance of timber values during the last ten or twenty years has probably been less than in the south. Perhaps the advance of any given tract, taken at random, in ten years from 1898 was most likely to be between two-fold and five-fold.[15]

Timber land values in the Northwest have increased about as rapidly as timber land values in the South. "A tract taken at random, is likely to have increased in any ratio from threefold to tenfold in the ten years ending in 1907 or 1908."[16] The federal report indicates, however, that the proportion of extraordinarily rapid increases in land value "is probably greater than in the South."

The value of the land on which timber products are produced has increased with inordinate rapidity. Perhaps there is no single phase of the problem presented by the increase in land value where the cause of increase is more apparent than in the case of timber land values. Timber is universally used. The rate of use in the United States is said to be approximately four times as great as the rate of increase in supply. The result of this situation upon prices and values needs no comment.

Among all of the figures showing increases in land values in the past two decades, those furnished by the federal report and by

[14] Ibid, p. 214.
[15] Idem.
[16] Ibid, p. 215.

private correspondence for timber lands stand out with remarkable distinctness. The increase in timber land values is without parallel in the present land value situation in the United States.

5. The Phenomenal Rise in Land Values

The land value facts at hand, covering all of the farm land of the United States, a number of representative cities, and the important timber areas of the country, indicate that the recent increase in land values has been nothing short of astounding. The phenomenon cannot be explained away. Neither the enthusiasm of local assessors nor the misdirected efforts of badly trained investigators would account for a condition so universal. American land values are rapidly rising.

Prices are increasing everywhere. Since 1896, price-increase has been omnipresent, yet no record of rising prices is so extreme as the record of the increase of the value of those particularly choice bits of the earth's surface which, because of favorable location or unusual fertility, are in great demand.

Whatever the validity of Malthus's theories, there can be no question that the increase in population is augmenting the pressure on the most desirable land in the community. The relation of increase in population to increase in land values is intimate. Each twelve-month witnesses the addition of more than two million people to the population of the United States. Meanwhile, the number of acres of first class wheat land and cotton land; the number of million board feet of standing timber; the number of tons of iron ore or coal still in the ground, and the number of desirable sites for commercial centers, either fail to increase, or, as in case of timber and mineral desposits, actually decrease. The amount of good land is fixed. The pressure of increasing population against the fixity of natural resources, results inevitably in rising values.

The lesson of the recent increase in land values is inescapable. Each passing year makes it more evident that the owners of the most desirable pieces of the earth's surface have a monopoly power which, intensified by each addition to the population and each progressive step of civilization, enables them to place an ever increasing tax upon the activities of the community.

ASSESSED VS. REAL VALUES OF REAL ESTATE IN PENNSYLVANIA

By Ralph E. George,

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The importance of adopting correct methods of assessing real estate for purposes of taxation is seldom recognized. Crowded into the background by more popular questions, this problem has so far failed to receive the attention from official and taypaxer to which it is entitled. Although local revenues are largely levied upon the basis of realty assessments, only the sporadic and unintelligent grumbling of the taxpayer sounds the warning against unfair methods. Some excuse for this neglect in the past may be found in the comparatively low tax rates, but no longer is this inattention excusable as the tax rates of our local governments rapidly grow with the expanding field of municipal activities. Increased tax rates make essential a study of the basis upon which they are levied—the assessed value of real estate.

This study of conditions in Pennsylvania is based upon an investigation of the methods of assessing real estate in forty-one counties. These counties include the more populous districts of the state, such as Philadelphia, Alleghany, Luzerne, Lackawanna, Westmoreland, Berks, Montgomery, Dauphin and Elk. The information was secured from county commissioners, assessors and taxpayers. An endeavor was made to discover: (1) what percentage assessed values bear to real values; (2) what are the causes of our present practice in assessing realty; (3) what arguments are used in Pennsylvania for and against the assessment of realty at full value.

The relation of assessed to real values of realty is dependent upon two factors: (1) the percentage at which the county officials endeavor to value property, and (2) the extent to which the assessors within the same county are successful in reaching the percentage adopted. As regards the first factor, the results secured show a marked absence of uniformity within the state. Of the forty-one counties—

4 claim to assess real estate at 100 per cent of its value.
1 claims to assess real estate at 90 per cent of its value.
1 claims to assess real estate at 85 per cent of its value.
5 claim to assess real estate at 80 per cent of its value.
2 claim to assess real estate at 75 per cent of its value.
3 claim to assess real estate at 70 per cent of its value.
4 claim to assess real estate at 66⅔ per cent of its value.
2 claim to assess real estate at 60 per cent of its value.
4 claim to assess real estate at 50 per cent of its value.
2 claim to assess real estate at 40 per cent of its value.
4 claim to assess real estate at 33⅓ per cent of its value.
1 claims to assess real estate at 30 per cent of its value.
1 claims to assess real estate at 66⅔ to 75 per cent of its value.
1 claims to assess real estate at 50 to 80 per cent of its value.
1 claims to assess real estate at 50 to 70 per cent of its value.
1 claims to assess real estate at 30 to 50 per cent of its value.
2 claim to assess real estate at 30 to 40 per cent of its value.
1 claims to assess real estate at 33 to 40 per cent of its value.
1 claims to assess real estate at 20 to 40 per cent of its value.

Two facts are emphasized by this table: first, a comparably small number of counties attempt to assess real estate at full value; and second, a great difference exists in the percentage adopted by the various counties in the state. Practically no similarity exists between the various counties.

Within the same county, the assessors are largely unsuccessful in assessing property at the percentage of real value adopted. The success in attaining the percentage desired is dependent upon the ability and experience of assessors. In most counties, the commissioners questioned the ability of the assessors. Where one assessor will value property at the desired percentage, a dozen others will vary widely from it. The result gives great dissimilarity between the various assessment districts within the same county. In but three counties was the belief common that any uniformity throughout the county prevailed. The counties in which the large cities are located have, however, a more nearly uniform assessment than rural counties in the sections investigated.

Such are the conditions at the present time in the forty-one counties investigated. Not only is there a great difference in the percentage of assessed to real value at which the various counties endeavor to assess, but there is an equally great difference within the same county as to the degree to which the nominal percentage is realized in the various districts.

The causes for the conditions above set forth are somewhat confused. Like most subjects connected with taxation much of the trouble is due to ignorance on the part of both officers and public. But the major portion of the trouble can be traced directly to three factors: (1) a deficient system of choosing and controlling assessors; (2) the character of assessments required; (3) lack of knowledge on the part of the taxpayers.

The most general cause given was that the assessment machinery is deficient. In Pennsylvania, outside of Philadelphia, the assessors are generally elected by the people to assess certain districts and are nominally under the direction of the county commissioners. Three evils manifest themselves in this system. In the first place, the commissioners, although nominally having control over the assessors, have little real authority. Such power as they do possess has been nearly lost as a result of non-use. The assessors neglect the instructions of the commissioners without suffering any penalty. The county commissioners stated in many cases that so long as the assessors are elected by popular vote it will be impossible to control them. The result naturally follows that each assessor is working independently of the others within the same county, and chaos results.

Secondly, the present method of choosing assessors by popular vote is weak. The average assessor assumes office handicapped by political and personal friendships and obligations which prevent him from doing efficient work. Being elected by the people, he feels responsible to them and pursues the course most certain to secure reëlection. Low assessments please the taxpayer, and the assessor to secure favor keeps the assessments as low as possible. No matter how intelligent the assessor may be, under such a system he is helpless if he desires reëlection. Furthermore, the assessor frequently feels obligated to the particular property owners who secured his election. The influence of the property owners is particularly bad when as in many cases it results in certain property being assessed at a lower percentage than other property in the same districts. For the past century the property owner has been exerting a steady influence upon the assessor to secure low valuation. This pressure not only has forced assessments exceedingly low in most counties, but makes any change to a higher rate very difficult to secure.

But were not the assessor handicapped in the manner outlined,

even then popular election would fail to provide a good system of assessment. The present method of electing by popular vote men who should know the many forces determining real estate values fails completely. Upon realty values, trained real estate brokers have difficulty in reaching a satisfactory conclusion. The average inexperienced assessor chosen by the people has much greater difficulty in making correct assessments. In order to be on the safe side he undervalues realty. Experienced, able assessors are required to make full valuations. This class of men the present system of popular election fails to provide.

A third defect in the present system is the fact that in Pennsylvania the county millage is levied upon assessments made by local township and borough officers. The result quite frequently is that assessors strive to keep their own districts rated below adjoining ones in order to throw the burden of county taxation upon the other townships or cities. This local effort to evade taxation does much to prevent 100 per cent assessment. The county commissioners endeavor to equalize the assessments of the various districts but in most cases frankly confess that their results are largely unsatisfactory. This difficulty is noted more in rural than in urban counties. Where a state tax is levied upon real estate this problem is even more pronounced and so far its solution has proved almost impossible. Added to local rivalry is that of the different counties so that state boards of equalization are required to give the various county assessments some semblance of equality. These boards, in the limited time at their disposal and with but meagre information concerning realty values in the various counties, can seldom do more than eliminate the more flagrant cases of unequal assessments. Such readjustments as they do make are based upon incomplete data. The method of equalizing assessments (either by state board or county commissioners as in Pennsylvania) has so far proved unequal to the situation.

In addition to the defects in the machinery of assessment, considerable emphasis was laid by county officials upon the complex character of the assessments required. It is pointed out in some counties where the population is increasing most rapidly that the values in suburban districts are largely speculative and are far above the real value of the property. Then in mining districts the claim is made that the assessor is unable to secure any adequate information concerning mineral lands. Correct valuations of such lands are

seldom secured. The same difficulty is urged in the case of manufacturing sites, the values of which are liable to many variations in some districts. The many uses for real estate puzzle the assessor greatly and call for experts to determine the values of different kinds of land and other real property.

But weak assessment machinery and the difficulty of the work do not alone explain the low assessment basis in most counties. The attitude of the voter has been a retarding influence. Whatever influence he has exerted has been in favor of the status quo. The ignorance of the taxpayer prevents any widespread movement for increasing the basis for assessment to one hundred per cent. The mass of the people are opposed to any change in present conditions. The belief is common that an increase in the rate of assessed to real value means a corresponding increase in the tax bill. This idea is partly justified by the tendency of taxing officials to retain the old millage when the valuation is raised. Unless these officials are required by public opinion to lower the tax rate when the proportion of assessed to real valuation is raised, the total tax bill will be raised. But while at present there is a considerable basis for the popular opinion, greater knowledge of the object of the assessment would remove this cause for low valuation. The assessment only determines the relative share which each individual shall pay; the tax rate determines his total payment. Were the assessors, however, to adopt full valuation of real estate they would arouse bitter antagonism on the part of the taxpayers. The majority of the commissioners apparently feel that the people do not desire any change.

Although few attempts have been made to remove the causes just given for present conditions, assessors and county officials are nearly unanimous in condemning the present system of low valuation. The commissioners of only five counties objected to full valuation. This objection was based upon the fact that in their counties when the valuation had been raised, the city, borough, and township governments failed to lower the tax rate, but utilized the increase in assessment to raise more money, much of which in the judgment of the commissioners had been extravagantly spent. So long as the different local governments will not lower the tax rate when the assessment is raised, the commissioners of these counties believe that it is better to keep a low assessment. In this way, the county officers endeavor to keep at a low figure the local taxes. In one county

the assessment was raised and, on the failure of the local districts to reduce their tax rates, was lowered to its original percentage of the real valuation. This argument is severely criticised by most county officials, who say that it is not the function of the county to limit the activities of the local governments and that the citizens themselves have the power to secure lower rates if they so desire.

The officials of the remaining thirty-six counties all believed in the full valuation of real estate. Some doubt existed, however, as to what constituted full valuation. A small minority of the assessors and commissioners were inclined to believe that the value of the property at forced sale should be adopted. Property so sold usually brings a price considerably less than its normal market value. If assessed at full value, the owner of property sold under forced sale would have paid taxes on a greater value than he actually received from the sale of the property. But it is very doubtful whether the forced sale valuation will be widely adopted. In actual practice it varies generally about 80 per cent of the full market value. It in reality constitutes one form of under-assessment and is by the admission of most of its advocates open to the same criticisms which apply to under-valuation.

The reasons usually given in favor of full valuation were the following: (1) it would give more equal and just assessments; (2) it would make easier the work of the assessor; and (3) it would secure a larger basis for local indebtedness under the state law.

Full valuation would give more equal and just assessments. On this question the great majority of assessors and county officials are in harmony with the best judgment of tax experts. Good methods of assessment are more important to the average citizen than a good tax system. The first requisite of a good revenue system is that taxes shall be equitable. Unless the assessments upon which taxes fall are fair, injustice results. Under low valuation, equitable assessments can seldom be secured. Injustice prevails both between taxpayers in the same district and between taxpayers in different districts.

In the first case, under a system of low valuation, the small property owner has not sufficient knowledge to know whether or not he is being unjustly treated. He knows little concerning the relation of assessed to real value. The very fact, in many cases, that his property is assessed at considerably less than full value prevents him

from becoming acquainted with the injustice of his own assessment. Many small property owners consider themselves fortunate when their property is nominally under-assessed, although were they to investigate conditions they might find themselves unjustly treated. The great majority of county boards believe that the large property owner is usually able to protect himself, but that the small property owner cannot be justly treated except under a system of full valuation.

But even should the property owner discover that his property is assessed at too high a percentage, he has little opportunity to have the injustice removed. Under the present system a parcel of land may be assessed far too high upon the basis of 50 per cent valuation. Should the owner protest, he will be asked by the tax officer whether he would be willing to sell the real estate at its assessed value. Since the parcel is assessed at less than full value and yet at a higher rate than the surrounding property the taxpayer is unable to protest the unfair valuation and so in many cases suffers a grievous injustice. The only practical remedy is full valuation.

Not only would full valuation eliminate much injustice between taxpayers within the same district, but it would also equalize different assessment districts. In the same city the densely populated sections and the better residence sections are assessed frequently upon a different basis, with the probability that the better residence districts are favored. The differences in the percentages of valuation used in assessing the various divisions of a county are especially marked in contrasting cities and townships. The tax officers in many counties believe that the cities are assessed at a lower rate than the country districts. The burden of county taxation would then be shifted upon the farmers. In other cases the cities certainly require a higher rate of assessment with the result that the city taxpayer suffers. Cities are frequently more advanced in assessment methods with the result that they are penalized for their progressiveness. Where also state laws limit the city tax rate to a certain millage, the assessment is frequently raised to enable the city to secure the funds made necessary by the increasing functions of the municipal government. In every case of this nature the city property owner has to pay more than his just share of the county's revenue. But even if difference in assessment between city and country is disregarded, wide variance is found to exist between the different rural districts in the same county. For instance in one county it was discovered that

farm lands on one side of the county were assessed at 30 per cent and those on the other side were assessed at 50 per cent. Such inequality as these figures indicate can only be remedied by full valuation. All differences in assessment between the various parts of a county would be eliminated by placing all assessments on the basis of 100 per cent.

Full valuation is more equitable through enabling the owner to ascertain the correctness of his assessment and through placing different districts upon an equality. In addition, it enables the assessor to accomplish his work more scientifically. Nearly every assessor interviewed believed that it would be easier to assess property at 100 per cent than at a lower figure. In order to assess real estate at 30 per cent, it is first necessary to assess at 100 per cent. Full valuation would enable the assessor to use unit values, tax maps, records, etc., much more easily in connection with his work. Only through the use of these tools can present methods of assessing real estate be improved.[1] If publicity with regard to the assessments is to be utilized successfully, as it has been in some cities, 100 per cent valuation will be necessary. There is no way whereby properties assessed at low valuations can be compared successfully. Full valuation forces the assessor to be more accurate. An over-valuation will bring a speedy protest and under-valuations will attract unfavorable comment as soon as the assessor's work is placed before the public. While some assessors dislike full valuation because it will force them to be more careful, the majority feel that the aid of publicity accompanying full valuation would amply repay their trouble and eliminate criticism. From the standpoint of the taxpayer and assessor alike, full valuation is desirable. It gives a more accurate and equitable basis upon which to levy the tax rate, and at the same time assists the assessor in performing his duty.

The third argument in favor of full valuation is the wider basis for local indebtedness which would thereby be secured. In Pennsylvania and in many other states the state law limits municipal indebtedness to a certain percentage of the assessed value of property within the city.[2] While there are many good reasons for objecting to present methods of restricting local indebtedness there is little

[1] Cf. *State and Local Taxation*, II, pp. 237–247; also *Somers System News*.

[2] Cf. Horace Secrist in *Journal of Political Economy*, April, 1914, pp. 365–383.

probability of a change in the near future.[3] Municipal indebtedness at the present time in most districts is barely within the limit prescribed by law. Many cities are now unable to carry on further improvements deemed necessary. This restriction prevents the city of Philadelphia from making desired improvements. Under the present system if our cities and local districts are not to be hindered in their attempt to make improvements it will be necessary to raise assessments to the basis of 100 per cent valuation. This step is one already being considered in many cities. One of the leading arguments advanced in favor of higher assessments in several of the leading cities in Pennsylvania during the last two years was that thereby more municipal indebtedness might be incurred.

Two minor arguments in favor of full valuation were advanced. In the first place some tax officials believed that the lower millage rate made possible by assessment at real value would tend to lessen the criticism of taxes. Where the assessment is low and the tax rate high, there is an inclination to look only at the tax rate and on that basis oppose all increases whether or not such increase may be necessary. In the second place many commissioners stressed the importance of enforcing the law, which in Pennsylvania provides for full valuation. The continued violation of the state law by elected officials tends to break down respect for all tax laws in their opinion. Since the law prescribing full valuation is on the statute books it should be enforced.

The conditions outlined above, showing a notable failure on the part of our assessing system to value property equitably, demand attention. Low valuation results in discrimination between different taxpayers and different sections of the same county or state. It makes more difficult the work of the assessor. It restricts unfairly municipal indebtedness. That the advantages of full valuation are now recognized by the great majority of assessors and county commissioners is an excellent sign for the future. Three obstacles retard progress: the deficient method of choosing and controlling local assessors, the complex character of the work, and the ignorance of the voter. The latter two can be removed only by education. The first can be remedied by a change in the method of choosing assessors. This important office should be taken out of the hands of inexperienced

[3] Cf. Charles F. Gettemy in *National Municipal Review* for October, 1914, pp. 682–692.

officers elected by districts and placed in charge of skilled realty experts appointed by the county commissioners to serve on good behavior. Good methods of assessment, such as publicity, tax maps, coöperation of assessors and realty brokers, already adopted in the city of New York and in certain cities in Pennsylvania, could then be practiced throughout the state. Even the obstacles outlined have not prevented five counties from raising their ratio of assessed to real valuation. With the adoption of the change suggested in the selection of assessors it is not too optimistic to look forward in the near future to the full valuation of real estate practically throughout Pennsylvania.

THE DISPROPORTION OF TAXATION IN PITTSBURGH

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For many years, Pittsburgh, like all Gaul, was divided into three parts. These divisions, which continued until 1912, constituted a classification of real estate for taxing purposes, into "agricultural" property paying one-half the tax rate prevailing in its ward, "rural or suburban" paying two-thirds, and "full city" property paying the full tax rate. The classification plan dates back to 1867,[1] when the boundaries of Pittsburgh were being enlarged, taking in parts of five adjacent townships—back fifty years, when electric cars, telephones, and electric lights were unknown and when you could count on your fingers the American cities honey-combed with sewer burrows, water mains, and gas pipes distributing municipal services over large urban areas. On the theory that taxes were payments for definite benefits bestowed by government upon particular individuals, it was therefore deemed fair to discriminate in favor of farm and rural property not sharing fully in city lighting, policing, fire protection and sanitation. In other words, land classification was a measure designed to meet a specific condition.

The condition changed, however, with the growth of the city, but the discriminations remained on the statute books. The almost unavoidable result was that whole districts, similarly located and otherwise much alike, were placed in different classes; and in the same way individual holdings, often in the same ward, were inequitably taxed. For instance, in the east end of the city, property for some distance along one side of Center Avenue, and also along Fifth Avenue—two main thoroughfares—in 1910, the time of this investigation, was classed "full," paying the full tax rate, while at the same time that on the other side of these streets—very similar in character, more built up, if anything—was paying but two-thirds of the rate. These were large districts. Anomalies in the classifica-

[1] An Act of 1867 created two classes, "rural," and "full city;" in 1876 the third class, "agricultural" was added.

tion of small individual pieces of property are illustrated in a block on North Highland Avenue, bounded, on the other sides, by Stanton Avenue, Beatty, and Hay Streets. This in 1910 showed two taxation classes. Property fronting on North Highland and Stanton Avenues was classed as rural, while just across Supreme Alley, which runs through the block and parallel to North Highland Avenue and Beatty Street, the properties fronting on Beatty Street were classed as full. North Highland had the street car line giving it a full city character, but the Beatty Street properties, while they had some little yard space, were closely built up.

But, to illustrate injustices that were more inherent in the system itself, up from the Allegheny River, near Highland Park, were 105 acres of good high-lying land suitable for plotting into city lots, which had been held out of the market by one family since before the Revolutionary War. The estate was almost entirely surrounded by populous neighborhoods; on the east was the growing East Liberty Section; and on the west the very congested tenement house region which was literally dammed up against the fences of the farm. The land was put through only the motions of farming, hay being the only crop that amounted to anything, and yet until 1912 it never paid more than the "agricultural" one-half rate. Within 300 yards, in the same ward, real estate closely occupied by working people was taxed at full rates. Other illustrative instances could be related at length.

Basing the "rural" class on picturesque grounds and shrubbery, and the "agricultural" class on the presence of woods or large open tracts used in reality or ostensibly for farm purposes—definitions laid down by the law and the court—the Pittsburgh assessors returned the real estate valuations for 1910, as follows:

Full property	$534,642,310
Rural property	208,224,892
Agricultural property	4,674,748
Total	$747,541,950

Thus in 1910, real estate to the value of $212,900,000, or 28 per cent of all, was classed in the rural and agricultural groups and escaped with paying only two-thirds or less (one-half in the case of agricultural land) of the current rate of the wards where located. That is, practically 10 per cent of the total cash values brought the city

no tax revenue whatever. Stated another way, in 1910, as a result of the classification system, over one-fourth of the real estate of Pittsburgh was relieved of one-third or more of its tax rates. The proportions were still higher in previous years.

The property classed as full comprised in the main all business districts, including manufacturing sites and railroad properties, and the congested residence districts where the mass of work people live.

MAP 1. GEOGRAPHICAL LOCATION OF THE THREE CLASSES OF REAL ESTATE

Of these, it was the latter, and the small storekeepers who served them, that suffered. For the former, the situation was mitigated in various ways. Sixty-six feet of right of way, as well as a considerable amount of other real estate owned by railroads operating in the city, was exempt from local taxes and therefore did not suffer from the full classification. Manufacturing properties, by certain exemptions and tendencies toward leniency in making valuations, got off with a much reduced full rate. Other downtown business property, through the system of separate sub-district school taxes,

which will be discussed later, had a low rate compared with small shops in the working class neighborhoods. The greatest anomaly of all, therefore, was that those financially least able were subject to full classification and therefore to the maximum city rates.

Agricultural land, of course, had few, if any, dwellings upon it. The connection between this classification of land and the undersupply and overcrowding of workingmen's houses found in many Pittsburgh neighborhoods seemed direct. For a generation Pittsburgh has been burdened with a taxation scheme which, because of discriminations, made it easy to hold great areas of unimproved land, but which, on the other hand, went gunning for the man who improved a small tract, and leveled at him what in effect was a double tax rate. Moreover, the working definitions of "rural" and "full city" property reduced the tax by one-third on expensive homes surrounded by large lawns, shrubbery, trees and flowers—property owned by precisely the people best able to support the government—while homes surrounded by a mere ribbon of grass, or none at all, and tenements that crowd block after block on both street and alley, paid the highest rates.

The local tax system, moreover, included features other than classification which led to inequalities of burden. Of these the varying tax rates prevailing in 63 separate sub-district school tax districts was as great a fiscal anachronism. Although the classification system modified the working of the separate ward rates, the latter can be best taken up first as a thing by itself.

Pittsburgh Separate Tax Rates. While Pittsburgh's current expenses were met out of a general rate, the erection and maintenance of school buildings were met by separate levies in the 63 tax districts referred to. The North Side (formerly Allegheny) paid a tax for general school purposes which was not assessed in other parts of the city; and the variation in rates for meeting special indebtedness led to still further differences in tax rates.

Although Pittsburgh was redistricted in 1907 making 27 wards out of what were formerly 59,[2] the old tax divisions remained, and some of the new wards showed as many as six tax rates. For example, in the new eighteenth ward, property on the south side of the narrow

[2] In 1910 there were 60 old wards, one having been added since redistricting, and three of these were divided into two taxing districts each, making 63 in all within the city borders.

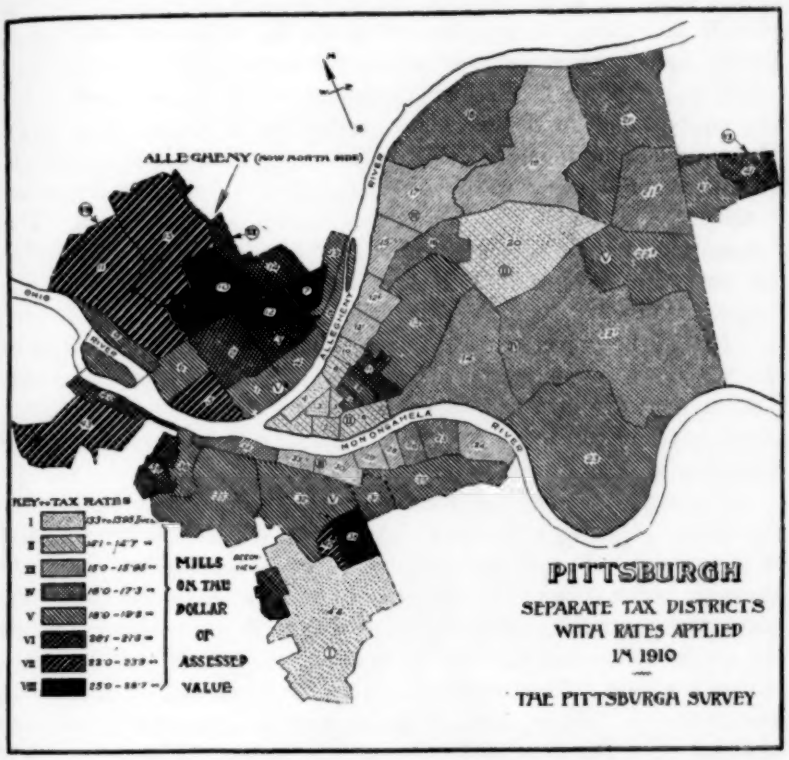
McKinley Park in 1910 paid 13.3 mills while just across on the north side the rate was 28.7 mills—over twice as much; property on the south side of Washington Avenue was bearing 23.9 mills at one place and 28.7 mills at another, while that across the avenue from both of these bore 18.7 mills; property east of Beltzhoover Avenue was carrying a millage of 19.2, while that contiguous and west of the avenue carried a rate of 18.7 at some places and 28.7 at others.

The most important factor in causing the differences in rates, as already indicated, was the separate school district tax. These rates in 1910 were as low as one-sixth and one-fourth of a mill in downtown business wards, and as high as 15 mills in the old thirty-eighth ward, used chiefly for residence. Nor were these differences in school millage mere bagatelles of a sort to be lost in the general tax rates. They dominated the final rates as they spread out over the city, with the result that the total rates in the 63 districts ranged from 13.3 mills to 28.7.

When the table of all these rates, listed in the order of size of rate, is inspected, it is seen that the first nine districts had rates in 1910 under 14½ mills. A reference to the map of Pittsburgh shows that these districts represented practically all of the valuable holdings in the business triangle up from the point, where the rivers meet, and included no other holdings. At the other end of the list there are 17 tax sections which carried rates of over 20 mills, and a glance at the map shows, excepting parts of the 2nd, 3rd and 5th, North Side Wards, that these districts were almost exclusively residence districts. They made up a very large proportion of the residence area of the city. Moreover, with a few exceptions, these high rate areas did not represent or include the most expensive residence districts, those most able to bear taxation. They were mainly small home-owning or congested renting neighborhoods. The old 19th, 20th, 21st, and 22nd wards—all of them large wards, made up for the most part of residence properties which would be classed among the most expensive in the city—were conspicuously absent from the seventeen districts with highest rates.

Considered quite independently of the classification system already described, the ward rates indicated that the heaviest tax burdens in Pittsburgh in 1910 were not felt by owners of downtown business holdings or expensive residence property—but by owners and renters of small houses and tenements.

Classification and Separate Rates Combined. But these factors, classification of land and ward rates, did not work independently of each other. What then was their result, working together? Did the inequalities of the one offset the inequalities of the other, or did they together tend to double up inconsistencies and injustice? To determine this, upon a map showing



MAP 2. SEPARATE TAX DISTRICTS, WITH 1910 TAX RATES.

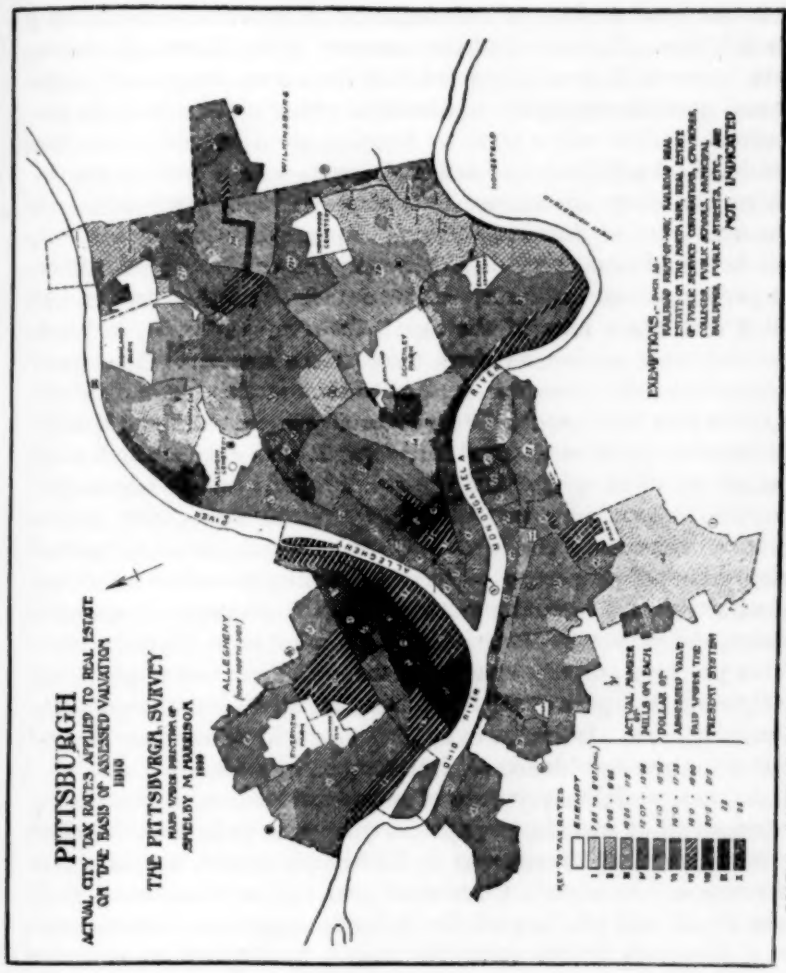
the nominal tax rates in each of the 63 different tax districts, was superimposed the map showing land classification. In other words, using the various separate tax rates as bases, we went over the city and shaved off one-half the ward rate wherever we found land classed as agricultural, and shaved off one-third the rate where it was classed rural. This left full rates only where the land was classed as full.

The result of this combination is that *actual* rates on assessed valuations varied in the different localities from 7.85 to 25 mills on the dollar. In our full report (see Volume Five, the Pittsburgh Survey), these inequalities were brought out *en masse* by dividing the detailed table of localities and rates into three large groups, placing all realty paying under 12 mills in the first, all paying above 12 and under 16 in the second, and in the third all property paying 16 mills and over. It was found that the low rates were being paid almost entirely by large "agricultural" holdings and expensive residence property, while the high rates were saddled upon small business realty, small residences, and congested tenement neighborhoods. The middle group included principally the downtown business wards, several manufacturing wards and a number of well-to-do residence districts. The conclusion from this grouping was inevitable. The inequalities of the land classification and of the separate ward rates did not offset each other. Rather they tended to accentuate the disproportions.

It may be objected that such conclusions as to the injustice of the tax burdens cannot be drawn until the tax is followed a step further; that the ultimate payers of the tax, not alone the property taxed, must be located. The answer is found in two theories of the incidence of taxation.

The first is the one held by the average business man, and is that the whole tax, both on land and on buildings, is shifted to the shoulder of the tenant. The second, that held by the economists, is that in the main, when both house and ground are occupied by the owner, the real estate tax cannot be shifted, but is borne by the owner. When the owner rents the property to another, the owner still bears the tax on the land. The tax on the house, however, is shifted to occupier or tenant. When, however, tax rates throughout a city are very unequal, as is the case in Pittsburgh, and when the people tend to congregate in certain quarters of the city and seem unwilling to move out to the suburbs, as is usually the case with immigrants, a part at least of the taxes on land that is rented, and all the tax on the buildings, tend to be shifted upon the tenants. So on the theory of the business man and of the economist, the conclusion that the bulk of the local real estate taxes fell upon the renting population, the small home owners, the working people, and the small storekeepers they deal with, is not changed.

Any Mitigating Elements in the System. A question next taken up was whether there were any other elements in the system of laying the municipal tax burden which tended to minimize these



MAP 8. ACTUAL TAX RATES APPLIED TO ASSESSED VALUATION IN DIFFERENT PARTS OF THE CITY.

results or to aggravate them. Four points deserved special attention: under-valuations; assessment revisions; triennial assessments; and exemptions.

As to the first, it is proverbial that the small man carries the heavy end of assessed valuations; and the lack of publicity in Pittsburgh had no other effect than to aggravate this condition. A number of Pittsburgh property owners familiar with local taxation testified to the local working of this tendency to undervalue, relatively, large holdings. In support of the accuracy of the Pittsburgh assessments, however, it should be noted that the assessors appraise buildings and grounds separately, a procedure which is more likely to get at correct market values than by lumping them together. On the other hand, the difficulty of estimating values in a city subject to such revolutionary growth as Pittsburgh was illustrated when we chose a number of districts typifying expensive residence property, small homes, tenements, small business property, downtown business property, and so forth, and had them appraised by several leading real estate men of the city. These figures varied as much from each other as they did from those of the assessors. Moreover, the transfer books in the assessors' office showed that out of 56 transfers in the new first ward in 1910, 34, or 60 per cent, were for considerations of $1 or other nominal amounts; 25 out of 41 in the second ward, 26 out of 66 in the third ward, and so on. It was impossible, therefore, to any large extent, to compare sale prices with assessments, or determine the percentage of valuation assessed against various kinds of property. With such disparity in estimated values and with the actual considerations concealed in so large a proportion of sales, the extent to which under-valuations were likely to favor the big property owners rather than the small owners depended very largely upon the personnel of the assessing staff, and the publicity given their work. In regard to publicity, very little was done beyond keeping the assessors' books open to public inspection.

Second, while the privilege of appeal for revision of assessments is open to all, it was the large property owner chiefly who benefited by it. The board of assessors in Pittsburgh is also the board of tax revision. At certain times each year the revision board gives notice that it will hear appeals for changing appraisals; and the number of responses to the notice is large. By leafing through the assessors' books, in which the revisions are recorded in red ink, we could see that a goodly number of appeals had succeeded, the revision being downward, of course: and that in the great majority of cases the properties affected were those held by the well-to-do and rich—

large and valuable holdings. This impression was corroborated by the statements of several members of the board. The explanation is not necessarily that such taxpayers have greater influence. Few, if any, of the small property owners ever appear before the board to ask for revision, but it pays the big owners to appeal; real estate men, agents and attorneys for owners scrutinize the assessments closely, watch the papers for notices of hearings, present their cases in the best form, and meet with some success in their appeals, almost as a matter of business.

As to the third point, triennial assessments, under the plan in vogue for years in Pittsburgh, tax rates tend to rise in the second and third year after assessments. Where, as was the case in Pittsburgh, tax burdens are unequally carried, such increases in the tax rate, of course, add new burdens to be borne in the same old unequal ratios. Until 1909, assessments oftener than every three years were illegal. The new act, however, provided for new assessments in any ward where they should be deemed necessary in any subsequent year. Thus the assessors were armed with full power to make annual valuations throughout the city as is done in New York, Philadelphia, Boston, St. Louis, and many other large cities. The department did not make a new assessment for 1911, however, nor for 1912, in a thoroughgoing way as was done for the triennial year 1910.

Fourth, Pittsburgh's exemptions of real estate from local taxation may be divided into two groups, commercial property and non-commercial. Non-commercial property included the long list generally exempted in all cities, such as churches, synagogues, Christian and benevolent associations, schools, colleges, libraries, hospitals, asylums, cemeteries; also city property, such as fire department buildings, city halls, parks, bath houses, police stations, and markets; and county, state and federal property, including court houses, jails, penitentiaries, armories, and post offices.[2] In addition, of course, all public streets and alleys are not subject to tax levies. The city markets and the post offices are grouped here although they are commercial in character. They are owned by the government, however, and their profits do not go to individuals.

A more or less unique feature of local exemptions is found in the commercial group. In 1910, Pittsburgh exempted $22,774,857 of

[2] The total valuation of these exemptions had never before 1910 been computed by the assessors.

real estate owned by railroad companies, street car companies, gas companies, telephone, incline plane, water, light and heating companies. This amount is split up among the different kinds of companies, as follows:

Exempt Commercial Property in Pittsburgh in 1907

Kind of Property	Land	Buildings	Total
Railroad	$17,106,701	$1,805,150	$18,911,851
Incline planes	56,973		56,973
Telephone and telegraph	449,918	345,700	795,618
Light, gas, heating, etc.	988,205	1,952,675	2,940,880
Water companies	11,425		11,425
Miscellaneous	58,110		58,110
Total	$18,671,332	$4,103,525	$22,774,857

These amounts are taken from the assessors' book of exemptions for 1907, as the 1910 book had not at the time of this inquiry been written up.[4] New exemptions had been added on the records and property recently taken out of the exempt list substracted; but a careful appraisal of exempt properties was evidently not regarded as of importance, some of the valuations going far back of 1907. The figures, therefore, are considerably under present values.

Sixty-six feet of right-of-way of all railroads operating within the city limits is not subject to local rates. The total of railroad land exempted amounts to $17,106,701, or 76 per cent of the total commercial exemptions. Practically all is right-of-way. The other 25 per cent of total commercial exemptions is mainly buildings and equipment of railroads and building sites and buildings of the other companies indicated. Of these, railroad property, other than land, in turn represents almost one-third.

The Pennsylvania Railroad owns the largest amount of this exempt property—64 per cent of the grand total. Thirteen million dollars in land and over one and a half million dollars' worth of buildings, sheds and so forth, belonging to it pay no local taxes. The buildings are situated almost entirely on the North Side and include the Fort Wayne depot valued at $145,000, a number of freight buildings, machine shops, storage houses, offices, and over $900,000 in tracks.

[4] Exemptions were listed, however, in 1913.

In the group furnishing municipal service, the Philadelphia Company, which with its subsidiary companies supplies traction, gas, and electricity, is favored most, enjoying an exemption of over two and a quarter million dollars. The eight-story office building on Sixth Avenue, and the ground on which it stands, which were valued in 1910 at $527,950, paid a tax upon only half this value, $263,975 being exempt. The large power house and 22.5 acres of land in the old 9th ward North Side, worth $458,000; the 11 or more acres of land with refining, purifying, retort and engine houses, and office buildings, in the old 14th ward, worth $888,600; and other property in the old 15th, 20th, and 21st wards, most of this being Consolidated Gas Company property, are totally exempt from city taxation. Exemptions for property of Allegheny County Light Company, Allegheny Heating Company, and Pittsburgh and Castle Shannon Railroad constituent companies are also of considerable size.

Telephone companies are favored also, thirteeen-sixteenths of the Central District and Printing Telephone Company's three-story telephone exchange property on Fourth Avenue, valued at $193,200, being exempt; and all of its eight-story brick office property on Seventh Avenue and Montour Way, valued at $313,200, besides smaller holdings throughout the city. The Pittsburgh and Allegheny Telephone Company pays no local taxes on $114,525 of property, mainly office buildings. Incline plane companies, water and miscellaneous companies own exempted property to the amount of $126,508.

Why these exemptions? The answer takes us back first to the general fiscal policy of Pennsylvania. The state has practically withdrawn from the field of general property taxation, and draws a considerable part of its revenue from the operations of public service corporations. Local taxing bodies, in turn, do not tax the business of the railroads which run through them, nor to any large extent that of local service corporations. This has been a matter of legislation. When we go deeper and ask why real estate and buildings owned by such corporations are lifted, along with their franchises, out of reach of the municipal tax department, we come into a realm not of legislation but of judge-made law.

Briefly, the rule was first laid down by the courts that real and personal property necessary for the exercise of franchises of quasi-public service corporations loses its character as buildings, lands, and

so forth, and is exempt from local taxation. By a special act of Assembly in the '50's, however, all Pittsburgh railroad property was made subject to city taxation. But when half a century later Pittsburgh attempted to assess not only buildings but right-of-way under this act, the supreme court decided that it did not apply to right-of-way. Further, the act of 1859 did not include Allegheny (North Side), and when the two cities were consolidated the supreme court, reversing a lower court, held that the Allegheny freight yards, stations, and so forth, could not be taxed by the greater city for the purpose of liquidating its floating and bonded indebtedness at the time of annexation. Nor has this North Side railroad property paid taxes to meet the current expenses of the greater city up to 1914. Thus it is that at the time of consolidation all of the quasi-public service corporation property on the North Side continued exempt; and in the old city, railroad right-of-way was exempt and so continues. Street railways and incline planes are classed with railroads and are entirely exempt on the North Side,[5] and in the old city the road bed is not taxed. Light, gas, heating, water, and telephone companies come under the general rule exempting property necessary for the exercise of their franchise.

It may be contended that the exemption from local taxes of stations, warehouses, power plants, and other improvements is justified in that it is an encouragement to the extension of transportation facilities. This contention would seem justified only in a city and state where the public control of public service corporations is such that citizens would receive better service for the same cost or the same service at less cost because of the exemption. Such a principle would lead far afield, moreover. The large distributors of milk, for example—a necessity fully as important as gas or transportation—might well argue that they should be let off from paying taxes on the buildings which house their refrigerating and bottling plants. But whatever the attitude toward not taxing buildings, the scot-freedom from land taxes of these commercial corporations does not seem justifiable. Land values are very largely, if not entirely, created by the community. If there is any agreement at all among taxation authorities, it is that real estate should bear an important part of

[5] The Pittsburgh Railways Company pays a relatively small gross receipts tax and tax on cars on the North Side. In 1909 the former was $38,416.99; the latter, $1,871.24.

local taxes; and yet Pittsburgh makes an exception in the case of over $18,000,000 in land values and absolves them from carrying their part of the city's expenses. The amount is as great as if the city exempted all real estate in the old 38th, 39th, and 40th wards, four times over.

Summary. To sum up, then, it was found that the dual system of discriminations by land classes on the one hand and ward rates on the other, in vogue in Pittsburgh up to 1912,[6] saddled the heaviest burden of local taxation upon the man of small means, the small householder, the small renter, and the small business man. It was found also that other important features of the taxation system, having to do with revision, under-valuations, and triennial assessments, aggravated rather than mitigated these inequalities, while the exemption of considerable commercial property made it necessary to impose a higher rate upon all taxpayers. The report therefore concludes with the recommendation of four functional reforms:

First: The schedule of tax rates, untangled to a great extent by the abolition of the district school taxes, should be further simplified and should be kept simple. There are often local responsibilities which are so peculiar to the annexed territory that they should be shouldered for a short time at least by the individuals or community in which they originated, but the period of readjustment should be made as brief as possible.

Second: The machinery for an annual, instead of a triennial, assessment of all city real estate should be set to work. Taxes are levied annually and city budgets are planned annually; the basis for the raising of these taxes should also be made up annually.

Third: Greater publicity of assessments through the printing and wide distribution of the assessment lists, the issuing of reports with maps and diagrams showing assessment methods, the charting of assessed valuations out from the central point of highest value, all are methods which have helped solve the difficulty of maintaining a uniform ratio between assessed valuations and cash values, in other places.

Fourth: Real estate owned by public service corporations

[6] The Halferty bill enacted in 1911 abolished the tax classification of real estate; in the same year a new school code was adopted which did away with the separate sub-district school tax levies.

should be subject to uniform local taxation. The city's policy is inconsistent regarding this property. In one part of the city it is taxed, while in another it is exempt. The least that should be demanded is uniformity throughout the city. But more should be demanded; more than $18,000,000 worth of land owned by these corporations should be taxed.

These four changes would round out the radical reform wrought by abolishing land classes and ward rates. They would tend to clear away further discriminations and disproportions due to geographical location, to changes in values from one year to the next, to the human equation in assessing real estate, and to the favoritism heretofore shown to one corporate group of taxpayers.

REDUCTION OF TAX ON BUILDINGS IN THE CITY OF NEW YORK

By Edward Polak

Register of Deeds, Bronx County, New York.

The movement for the reduction of the tax on buildings and the corresponding increase of the tax on land have been prosecuted with some vigor for a good many years. It has resulted in the entire exemption of buildings in several Canadian provinces, and in various cities of western Canada; and in the United States, in a reduction of the tax on buildings in Pennsylvania cities, Pittsburgh and Scranton.

In this agitation arguments which are undoubtedly extreme have been presented on both sides; arguments which involve far more than the proposed comparatively moderate change in the burden of taxation, of reducing the tax on buildings and increasing the tax on land to make up the deficiency. Those who favor the proposal are apt to attribute to it results which at best could only be achieved by a much more extensive application of the principles of Henry George, than are at present proposed. On the other hand, those who oppose the change often do so on the theory that very much more is involved than the shifting of part of the tax from buildings to land.

When suggesting the reduction of a tax on buildings and an increase in the tax on land it is not necessary to assume that the reduction will be brought about at any particular rate per annum or within any given number of years. The rate of change should depend upon time, place and circumstances. In some rapidly growing city of western Canada, where the tax rate is very low in proportion to the value of all real estate, buildings may be exempted from all taxation at one stroke without affecting values as much as a very small change might affect them in an older city of the United States, where taxes are high in proportion to value. If it were agreed that in any given city taxes on buildings should be reduced and taxes on land increased, it would still be subject for serious discussion as to the rate of the reduction and the time within which all taxes, or one-half the taxes on buildings, should be taken off.

The argument advanced most forcibly by those who object to a differentiation in the treatment of land and buildings is that for a

long time the present treatment of real estate as a unit has prevailed, and that any change would be unjust. Many of these persons admit that if at the beginning of our development in this country we had exempted buildings from taxation, the results would have been better. The city of New York is some three hundred years old. We hope that it will endure for at least some thousands of years. It is therefore in its infancy. An argument that because for one-hundred years or more we have pursued a certain policy we must therefore pursue it forever, seems either childish or so prejudiced as to be unworthy of consideration.

The objections to the reduction of the tax on buildings that it would disturb existing conditions, produce financial panic and ruin many innocent persons, all proceed from the assumption that the change in the rate of taxation on land and buildings is to be too rapid.

It would be possible to make a change so gradually that from decade to decade no shock or disturbance due to the change would be felt. It is not assumed that the changes are to be made so slowly; nevertheless, the fact that it would be possible to make them almost imperceptibly entirely destroys the force of any objections to the principle, based on the disturbance or supposed disturbance of existing values and existing relations. That argument is against some mode of change and not against the proposed change in itself.

Another objection urged sometimes with much violence is that an increase of the tax on land will force the erection of buildings of extravagant height, and thus congest both population and business activity. Unfortunately, in this country we have neglected to provide any efficient regulations upon the erection of buildings in cities. We are beginning to do it. We have some regulations now in Washington, Boston, New York and various other cities, and the tendency is to improve and strengthen those regulations so that we may control the erection of the buildings at least as efficiently as they have long been controlled in the cities of northern Europe. Whether or not the change in the incidence of taxation would intensify the evils from which we now suffer is immaterial. The evils of congested buildings are admitted on all sides; the remedy, regardless of taxation, is proper regulation.

Probably no change in methods of taxation would improve the conditions due to the failure to impose proper restrictions upon the

erection of buildings, and no change could make it worse than it is now in the borough of Manhattan of the city of New York, and to a lesser degree in other cities of the United States.

Since the invention of steel frame construction the history of the development of Manhattan Island has been deplorable. Someone found that he could erect a twenty-story office building and steal light, air and means of access that belong to his neighbors. For a time the building was profitable and the land apparently had a much higher value than before. Others desired to take advantage of the enhanced value of their land and erected similar buildings. When the first building was deprived of light on two or more sides it ceased to be profitable. Some streets were entirely inadequate to carry the new traffic. These results followed the erection of buildings on Manhattan Island of excessive height and which covered too large a percentage of the lot on which they were built. Regulations in European cities are almost always based on street width. They are designed to permit the best use of all the land consistent with the best use by each owner without impairing the equal rights of other owners. The amendments to the New York charter enacted in 1914 as the result of the report of the commission on building heights contain a direction which indicates clearly the intent of the commission to bring about regulation upon these principles. Section 242-a of the charter contains the following direction to the Board of Estimate:

> The board shall pay reasonable regard to the character of the buildings erected in each district, the value of land and the use to which it may be put, to the end that such regulations may promote public health, safety and welfare and the most desirable use for which the land of each district may be adapted and may tend to conserve the value of buildings and enhance the value of land throughout the city.

When suitable regulations are in force, the tendency observed in all cities is the erection of buildings of the maximum heights and area permitted by law. This is a most satisfactory tendency, which could only be intensified by a reduction of the tax on buildings and an increase in the tax on land.

Taxation is ordinarily regarded as a necessary evil. This is not true of taxes on land. The evil results of inadequate land taxes are apparent everywhere. Land needed for intensive use is put to a less adequate use, and land needed for immediate use is held at

such high prices that improvers are forced to utilize less well suited land, in advance of any economic necessity. About all our cities, and especially about New York, we find great tracts of vacant land intervening between well built areas. These intervening tracts are often fully developed with streets and all conveniences greatly increasing the cost of city administration, for lighting, policing, fire protection and in other ways. Persons are driven to establish factories and houses on less desirable sites because of the public policy that offers the hope of reward to those who withhold land from use. This hope of reward is seldom fully realized, and only a few who gamble in vacant land draw prizes in this undesirable lottery. The whole community suffers. In every direction the development of our cities is hampered and distorted by this withholding of land from appropriate use and putting it to an inferior use. Our systems of transportation cost vastly more for original construction and for operation than they should because they must traverse sparsely settled territory to reach settled areas. High land values impose an annual charge on the whole community without the slightest compensating gain. A tax on land is a burden on no one save the one who happened to be the owner at the time the tax was imposed. A land tax is like a rent charge, but instead of going into the pockets of private citizens it goes into the public treasury to relieve all citizens from the burden of taxes imposed on all. The higher the tax on land the lower the selling value and the less capital is required for land development. The rent of land blesses neither him that gives nor him that takes, unless it falls into the public treasury. The greater the degree in which it goes into the public treasury for needed costs of government, the better.

Taxes on buildings present an entirely different aspect. In every growing city taxes on buildings tend to check the erection of buildings because capital will only seek investment when the investment offers a reasonable return. Supply and demand determine price, and a tax on buildings must be paid by the tenants of the building just as every other tax imposed on products of human labor must be paid by consumers.

A few illustrations drawn from actual conditions may make the matter more clear to those unfamiliar with the relative value of land and buildings. In the city of New York as a whole the value of land is about 62 per cent of the total assessed value of land and

buildings. Every increase in the tax on land and a corresponding decrease of the tax on buildings will favorably affect all properties where the value of the building exceeds 38 per cent of the total value of land and building. With the exception of the houses of the very rich and a small section of the financial district of the city of New York, buildings when first erected generally exceed in value the land on which they are placed. The highest-priced residential land on Fifth Avenue is worth from $150,000 to $200,000 for an inside lot 25 x 100. It is a very costly house which is worth more than one-half the value of such land. Corner lots are worth half as much again, which more than makes up the cost of the building erected on the corner. In the financial section some of the highest priced land, corner included, is worth from $200 to $350 a square foot. A twenty-story building of good construction can be erected for $150 a square foot or less. In the case of industrial buildings, factories, the houses of the moderately well-to-do and the tenements, the conditions are very different. A factory building is rarely erected on land worth more than $4 a square foot, and a six-story factory costs about $9 a square foot of the land on which it stands, while a ten-story factory of most inexpensive construction costs $12 a square foot or more. Usually such a building stands on land not worth more than $2 or $3 a square foot. A loft building in Manhattan twelve stories high costs $30 a square foot. The condition in respect to lofts is abnormal in the extreme because of the failure to regulate building heights. The ordinary six-story tenement house without elevators on Manhattan Island costs about $8 a square foot while it usually stands on land worth not more than $4 a square foot. In the other boroughs, a four- or five-story tenement house is still more valuable in proportion to the land on which it stands. In Brooklyn a five-story tenement costing $7 a square foot stands on land worth perhaps $2 a square foot. The modest dwelling of two and a half stories built of frame, which costs from $4,000 to $6,000 costs about $5 a square foot and stands on land worth generally not more than $1 a square foot.

These figures may be hard to follow, although they are presented in the simplest way. The lesson they teach is this, that taxes on buildings are very onerous on tenement dwellers, owners of modest houses and upon manufacturers. Not a few rather arrogant persons who receive ground rents and never did a stroke of work to increase the world's wealth, talk of themselves as taxpayers and the

poor dwellers in tenement houses as persons who pay no taxes. The contrary is the fact. The recipient of ground rent is the recipient of government favor whose taxes are paid for him by others, while the man who lives in the tenement house is charged at least one-sixth of the rent he pays in taxes. To the extent to which taxes on buildings are reduced, to that extent tenants of buildings will save. They will not save in the first year, perhaps, but charges for buildings can only amount in the long run to the usual return for capital. If for the time that return is increased by a lessening of the tax, others will seek a like investment until the demand and supply of buildings meet at the rate of usual return.

Some day society will see that there is no occasion for any tax at all in any community; no buildings of extravagant height or size will be allowed; there will be open space, light, air and access enough, and all buildings once constructed will be protected from encroachment of neighbors upon their light, air and access. The value of buildings will be conserved, and our cities be supported by a rent charge in the form of a tax on land only which will then be a burden upon no one.

For the purpose of this argument, the time within which this beneficent change shall be brought about is not material. The question before American cities is whether they shall be content to suffer forever the ills which now affect them, because their ancestors started in the wrong way, or turn their faces toward the light.

WHAT PROPERTIES SHOULD BE EXEMPT FROM TAXATION

By John J. Murphy,

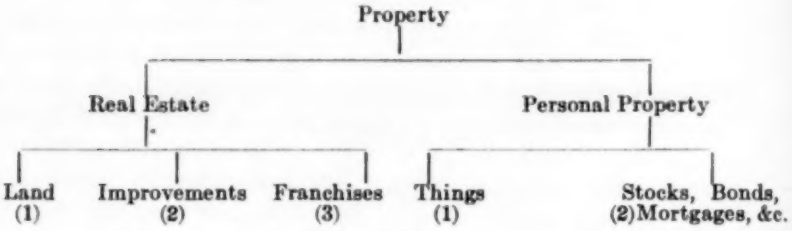
Commissioner, Tenement House Department of the City of New York.

The question as submitted is one of great scope because it involves the consideration of sources of national, state and local taxation. It is obviously impossible to treat within the scope of a single article of moderate length the various subjects comprised in so wide a field. Free trade and protection, prohibition and license, would be involved in any discussion which attempted to include the entire range of taxation.

Personally, I think it can be shown that most of the subjects of taxation now levied upon by state and national governments are improper bases, if for no other reason than that they are indirect, and that as the people do not know that they pay taxes on them at all, public interest in governmental economy is reduced to the minimum. In a world where most people find the aid of illusion necessary to make life tolerable, it is not wonderful that statesmen resort to devious devices in order to make taxation acceptable to taxpayers. Especially in democracies, is it true that tax legislation follows the line of least resistance, which always is to impose the tax upon someone who can shift it to another, in the form of increased prices, in such fashion that the apparent taxpayer knows that he is not actually paying the tax while the actual taxpayer does not know that he pays at all.

I will confine this article, therefore, to the consideration of what properties should be exempt from taxation for local purposes.

For purposes of local taxation, property is divided into real estate (which includes land, improvements thereon and franchises), and personal property (which includes tangibles and intangibles, the latter term being applied to evidences of ownership which may represent either realty or personal property). If we use the form of a genealogical chart we get a result somewhat as follows:



It will be seen at once that there is an inconsistency in this analysis because the second division of personal property consists chiefly of interests in some form of real estate. Hence if the real estate were fully and fairly taxed in the first place, taxation of mere ownership would be double taxation.

It will generally be admitted that that form of taxation is most desirable which lays the smallest burden upon industry, which least discourages saving and which can be most cheaply and certainly adjusted and collected.

There seems to be a consensus among those who have most intelligently studied the subject that personal property should be exempt, because taxation of it offends every one of the principles of desirable taxation laid down in the foregoing paragraph. There are still a few belated champions of the taxation of personal property even among metropolitan journals but it hardly seems worth while to waste space in refuting their arguments. All our older states have tried at one time or another to raise taxes in this way, only to confess failure. The law inevitably became inoperative and only left a feeling of injustice in the minds of the few persons who were its inevitable victims.

If personal property be eliminated as a proper subject for taxation there only remains real estate. The question arises here whether all the components of real estate are equally desirable as subjects of taxation. Franchises are special privileges granted to corporations or individuals to collect taxes in return for certain actual or nominal services rendered to private citizens. They only have a surplus value when such corporations or individuals are permitted to charge a rate for services rendered which is more than sufficient to pay all charges and the prevailing rate of interest on capital invested. As long as such surplus earnings are permitted, they seem to be proper subjects of taxation, but it would seem a

wiser and fairer policy to limit the rates, which franchise corporations are permitted to charge, to cost of production plus interest.

The subject of the exemption of improvements on real estate has engaged much public attention. One of the wisest men who has written on the subject, Enoch Enslee, a large land owner of Tennessee, affirmed that a wise community would not tax anything of value "which would come to you if it were not taxed but which would leave you if it were."

Most cities are confronted with the problem of providing adequate and sanitary housing accommodations for their poorer citizens. In Europe this problem assumed such proportions that only a municipal housing policy could meet the situation. Yet these cities were at the same time heavily taxing private citizens who were engaged in providing houses similar to those which the municipality was erecting at greater expense. It would seem obvious that every city should encourage to the utmost the expenditure of money in judicious construction. The more buildings there are, other things being equal, the lower the rents which citizens will have to pay. While there may be sporadic cases of over-building, as a general proposition, business judgment may be counted upon to check excessive development in that direction.

It would seem therefore that it would be good public policy, partially or wholly, to exempt buildings. It is frequently urged that to do so would be to place a premium upon enormous buildings, but it seems to me a sufficient answer that the existing system which does attempt to tax such buildings according to their full value, does not prevent this admitted evil. On the contrary it seems to encourage it; paradoxical as it may seem, it is quite possible that the exemption of buildings by putting a heavier tax upon sites, and thereby compelling a more general and uniform development, will prevent what is becoming one of the worst evils in our larger cities.

There is another point of view from which partial or total exemption of buildings would work out relief to enterprising owners. Business waxes and wanes. At one time there may be prosperity with large profits which makes the payment of taxation upon buildings a matter of moderate moment. At another time business is stagnant and the returns on property do not enable the owner to meet his obligations. Then taxation may be a crushing burden. There is an instance in Massachusetts of a mill, which, owing to in-

dustrial developments in other parts of the country, fell into disuse for a considerable period. For a number of years its owner was obliged to pay taxes on the building at a rate only slightly less than when the business was in operation. After doing this for four or five years he blew it up in order to save this annual expenditure. Later, had it not been destroyed, it could have been used.

It is sometimes urged that it would not be fair to absolve owners of buildings from paying their quota of taxes, that they consume public services and therefore ought to pay for them. I think, however, it is now generally admitted by economists that the lot value measures more accurately than the building can the value of the public services rendered in the vicinity, and that hence lot value is a better measure of the amount which the owner ought to pay than the building can be.

That the policy of exemption of factories, mills, etc., is regarded as "good business" is shown by a number of cases in which, sometimes legally, sometimes illegally, the taxing bodies of the smaller towns and villages hold out nominal taxation or exemption as an inducement to new industries to settle there. Such a policy is of course unjust to their older residents and ultimately opens the way to the creation of special privileges, always to be deplored in the relations between the municipality and the citizens.

To recapitulate, taxation of personal property is condemned by the best authorities and discredited by the experience of such bodies as have attempted to enforce it. It puts a premium on dishonesty and encourages favoritism. These faults are not the defects of administration but are inherent vices. It takes from the citizen property in the creation of which the state or municipality has had no hand. For these reasons, and others which it would take too long to enumerate, I believe it should be exempt from taxation.

In regard to real estate, the improvements on real estate are much more of the nature of personal property, in that they are direct products of human labor, than is the land, which is the other element that goes to make up real estate. It is in the public interest that the production of such improvements should be encouraged and not repressed. Exemption of housing would go a much longer way than any program of municipal housing to improve the living conditions of the poorer citizens. I feel, therefore, with

due deliberation, that is the direction which tax reform ought to take.

Of course, the effect of such a change of policy would be far-reaching and the change should be introduced slowly and with due regard for the welfare of the community as a whole. It is not so much a question of the distance which we travel as of the direction in which we shall move.

THE HOUSTON PLAN OF TAXATION

By J. J. Pastoriza,
Finance and Tax Commissioner, Houston, Texas.

The Houston plan of taxation was inaugurated by the city council at the beginning of 1912 and has been continued during the years of 1913 and 1914. It contemplates the assessing of land at its fair value, and the assessing of buildings and other improvements upon land at 25 per cent of their value. The effect of this has been to stimulate enormously the investment of capital in buildings and manufacturing industries. The partial exemption of buildings from taxation has caused the erection of modern, sanitary and up-to-date buildings and in time will have the effect of causing the owners of old insanitary buildings to reconstruct them along modern lines or go without tenants. It will have a tendency to prevent the creation of slums and insanitary buildings where people must live or work.

The Houston plan contemplates the total exemption from taxation of notes, mortgages, evidence of debt, household furniture and cash. The effect of this has been to increase the amount of money deposited in our banks and hence make money easy to borrow and to circulate. The bank deposits of Houston have increased $7,000,000 in the past two years. Certainly this is due, in a measure at least, to the fact that the people who had money knew that if they placed it in the banks it would not be taxed. The banks having greater deposits had more money to lend and thus it was easier for the man without money to borrow, because of the increased quantity of money available.

The effect of not taxing mortgages or notes was to prevent an increase in the interest-rate charged. It is very evident that if the lender of money had to pay a tax upon it that he would increase his interest to the amount of tax, thus making the borrower pay it instead of himself. Every attempt to tax personal property which has been made in the world has resulted in either the owner of personal property hiding same, lying about same, or if it was taxed, has allowed him to shift the tax to the ultimate consumer or user.

Under the Houston plan of taxation vacant lots which have heretofore been used as a receptacle for old tin cans and rubbish

are now being improved and put to their best use. The longer the system remains in operation the greater will be the benefit to the majority of the people. The only man who can complain is the man who is holding much vacant land out of use, refusing to improve it and refusing to sell it at what it is worth for use to someone else.

When the Houston plan of taxation is carried to its logical conclusion, people will begin to realize what the millennium upon earth means.

When elected tax commissioner of Houston in 1911, I found a great mass of taxpayers disgruntled and dissatisfied with the management of the tax office. I soon discovered that each taxpayer thought his neighbor was getting his property assessed for less than he was, so in order to keep even would resort to all kinds of misrepresentation in order to get his own assessment lowered.

I took a number of pieces of land and blocks from each ward in the city, tabulated their assessed value and in a column alongside placed what it was generally believed each piece of property was worth for sale. The result showed some pieces of land or lots were assessed as low as 8 per cent of their value, while many small homes were assessed at more than their value. I readily saw the cause of all the dissatisfaction and could well understand why taxpayers would come up to the office, call the assessor all kinds of hard names and declare that the city was a robber and a thief. I set about to remedy this dangerous spirit which was being manifested by the people almost to the point of revolution by a decision to equalize the assessed values of land with reference to the ownership. Having met, fifteen years before, a man by the name of Somers in New York, who was then formulating a series of tables which were intended to be used for calculating the value of the various lots in a block when the price per front foot of the middle lot on the four sides of the block was given, I communicated with him and learned that he had sold his right to the Manufacturers' Appraisal Company of Cleveland, Ohio. Getting in touch with these people I soon learned that the Somers system if properly applied would equalize the values of real estate of Houston, so upon my recommendation the city council made a contract with them. They had nothing to do with placing values upon our real estate, mind you. I got these values by securing the coöperation and assistance

of the property owners themselves, together with a select committee from the Chamber of Commerce and the Houston real estate exchange; all of these men working two afternoons each week without pay.

The entire assessment of the city of Houston for the year 1910, which was the year preceding my election, was $63,746,000. The Somers system was applied to the business district only in 1911, which gave us an increase of $13,500,000 in land value assessment alone. The system was applied to the entire city in 1912, which added $19,000,000 more of land values alone. This gave us a total assessment for 1913 of a little over $96,000,000. From this you will see that the total assessments of the city of Houston from 1910 to 1913 were increased through this equalization $33,000,000 or over 50 per cent. This was done in spite of the fact that we adopted what has since become known throughout the United States as the Houston plan of taxation, which is more a plan of tax exemptions that it is a plan of taxation. That is, we exempted totally from taxation all cash, mortgages, notes, evidences of debt, household furniture and such personal effects as horses and buggies, watches, jewelry, sewing machines, pianos, etc., and we exempted all houses, machinery and other improvements upon land to the extent of 75 per cent of their value; that is, we assessed them for only 25 per cent of their present worth.

One would think that all these exemptions would have reduced our assessment, but our records show for themselves, and also prove that the lands of Houston had been grossly undervalued for assessment purposes. The result of this low taxation of land had become manifest in high rents. Think of it! In a city of less than 100,000 people, merchants were paying a rental of $1,000 per month for a store of twenty-five feet front. Five- and six-room cottages were rented at from $35 to $40 per month and five-room apartments in flats at from $45 to $60 per month. Rent was so high that many people who wanted to locate here, after coming, went away again.

After two years of application of the Houston plan of taxation we have this result:

Rents have fallen 20 per cent and will fall more in certain cases where they were unduly excessive.

A published statement that we would not tax money increased our bank deposits $7,000,000 in two years. Our building permits

increased the first six months, 66 per cent, and for the first year, 51 per cent.

The great inequality of previous assessments was shown by the fact that when the year's work was done we discovered that over 5,000 people paid less taxes than they did the year before, notwithstanding that a total increase of $33,000,000 had been added to the rolls.

Formerly a taxpayer would come up and perjure himself by lying as to how much cash he had, the value of his household furniture or whether or not he had any mortgages or credits. Now he comes up to the office and signs his assessment, made out and the price placed there by the office, and unless he can prove that this price is more than his property is fairly worth he has no recourse except to sign his assessment or it will be signed for him by the assessor.

We have just completed our assessments for the year 1914 and out of 12,000 taxpayers only fifty refused to accept our prices as placed upon their real estate. Even if these fifty have a just cause for complaint, which will be investigated, it certainly goes to show that it is a very small percentage, and it also proves that the people are satisfied with the Houston plan of exemptions and the Somers system of equalization.

THE HEAVIER LAND TAX

By Allan Robinson,

President, Allied Real Estate Interests of the State of New York (Inc.).

Criticism of present methods of taxation is not confined to the so-called single taxers, but the angle at which the followers of Henry George view the subject is different from that of the anti-single taxers. The former believe that there should be no taxation at all, and are restive under the designation, which for want of a better name, has been given them. The single tax, as they think of it, is not a tax at all, but merely the fiscal means for bringing about common ownership of land. If land, not owned by individuals, is permitted to pour its accumulating earnings into the lap of a receptive government, no one will have to pay any taxes. The opponents of the single tax, while acknowledging that our tax methods work injustice, do not admit that the remission of taxes would work the benefits claimed for it. So far as I am personally concerned I frankly say that if true democracy is to come it must be through the imposition of the cost of government upon every person in the community, apportioned to the benefits each receives. The burden of taxation, in other words, is the necessary equipment that each citizen needs, if he is to qualify in the race of life. The anti-single taxers would not relieve anyone of the burden of taxation; they would distribute it equitably, or as equitably as it can be distributed. The fact that no satisfactory scheme for this equitable distribution has yet been proposed, does not carry with it the conclusion that none can be found, or that not having found the right kind of a tax, there should be adopted the scheme for abolishing all taxes, and making land support the government.

I do not propose at this time to discuss the theoretical questions involved in the adoption of the single tax, or the doctrine of common property in land. These questions are important and are occupying a large place in current thought and discussion. I shall merely content myself with saying that as a practical matter, common ownership of land would in my opinion inevitably lead to higher rents than those which private landlords obtain, and for this reason if for no other, a system which covers into the public treasury

the entire ground rent of land would not materially benefit the people at large. But the particular purpose of this article is to set forth the facts, so far as they are available, relative to the operation of heavier land taxation in certain cities in northwestern Canada and the United States. The single taxers do not hope all at once to destroy the capital value of land by taking its entire earning capacity in taxation; they are looking forward toward a gradual increase in the land tax, a little this year, a little more next year, and so on, until the goal is finally reached. Whether or not they ever reach the goal depends on the results attending the operation of the gradual increase in the land tax, and we are now fortunately in a position where we may see and analyze these results in some localities.

The following cities in northwestern Canada have been experimenting with the heavier land tax for several years: Victoria, Calgary, Edmonton, Lethbridge, Medicine Hat, Regina, Moose Jaw, Saskatoon, Prince Albert, and Vancouver. Building permits in these cities for the years 1912 and 1913 show the following.

	1912	1913	1914
Vancouver	$19,388,322	$10,423,197	$2,973,335—6 mos.
Victoria	8,208,155	4,037,992	1,572,190—4 mos.
Calgary	20,394,220	8,619,653	1,644,100—5 mos.
Edmonton	14,446,819	9,242,450	
Lethbridge	1,358,250	504,954	
Medicine Hat	2,798,764	3,850,082	
Regina	8,047,309	4,018,350	1,355,120—6 mos.
Moose Jaw	5,275,797	4,528,470	407,300—5 mos.
Saskatoon	7,640,530	4,452,845	301,950—5 mos.
Prince Albert	2,008,000	1,380,390	144,365—6 mos.

It will be noted that Medicine Hat alone shows an increase of building activity, while the rest indicate a remarkable decrease. These figures are instructive because they are quite the reverse of what the single taxers had led us to expect. For several years they have been pointing to Vancouver and the other cities as proof of what heavier land taxation would do to stimulate building. It is quite true that up to the year 1912 all these cities showed gains in buildings, and the single taxers claimed these gains for themselves. Now that the tide is ebbing we hear little or nothing about the land taxes in the Canadian cities. But how about other Canadian cities where they have no tax exemption of buildings?

Montreal increased its building permits from $19,641,955 in 1912 to $27,032,097 in 1913. Fort William increased from $3,746,565 in 1912 to $4,029,965 in 1913. Toronto in the same period showed only a small falling off—$27,401,761 in 1912 and $27,038,624 in 1913.

The same general tendency is shown in the bank clearings for the years 1912 and 1913. Of all the cities above enumerated where heavier land taxation is in operation the only one to show an increase in bank clearings in 1913 over 1912 is Regina. In Toronto, on the other hand, bank clearings increased from $2,159,230,376 in 1912 to $2,181,281,577 in 1913. In Montreal the increase was from $2,844,368,426 in 1912 to $2,880,029,101 in 1913. Fort William increased its bank deposits nearly $9,000,000, while St. John fell off about $6,000,000 in the same period.

The general conclusion to be drawn from these figures is that the heavier land tax has not kept the cities of northwestern Canada from feeling the effects of business depression, while other cities without such heavier land tax have, in the main, gone forward. We need seek no further for the reason why the single taxers have not been directing public attention to northwestern Canada since 1912. Commenting on this situation, Professor Bullock of Harvard said:

> If the single tax, rather than the previous period of flush times, accounts for the increase in building operations from 1909 to 1912, it must accept the responsibility for the slump of 1913 and 1914. It is a poor kind of magic that can be used only to account for prosperity and proves useless in a season of adversity.

With the decline and fall of Vancouver and its sister cities as examples of what heavier land taxation would accomplish, the attention of the public was adroitly directed toward Houston, Texas, where a heavier land tax plan was put into effect in 1912. The finance and tax commissioner of Houston, J. J. Pastoriza, was a follower of Henry George, and a believer in the single tax. The figures furnished by Mr. Pastoriza and published widely in this country and foreign lands seemed to justify the claims that were made that Houston was benefiting greatly under the operation of the heavier land tax; but a careful examination of the facts shows that Mr. Pastoriza's figures are not correct. He claimed an increase in bank deposits in Houston of $7,000,000 in 1913 over 1911. These figures he reached by taking the bank deposits of June, 1911, and comparing

them with the bank deposits of September, 1913. Had he taken the deposits of September, 1911 he would have found $2,500,000 more in the banks than in June which was the active business period. Furthermore he neglected to include the deposits in the state banks in his 1911 figures while including them in his 1913 figures. As the net result of these two mistakes we find that he is more than $5,000,000 out in his reckoning. In order that an accurate and valuable comparison may be made the same period in each year should be selected. If we take the September period we find the following bank deposits in Houston in the years 1909 and 1913 inclusive: 1909, $27,707,497; 1910, $31,256,000; 1911, $36,550,000; 1912, $41,424,000; 1913, $38,-112,000.

Examination of these figures discloses the fact that bank deposits increased over $9,000,000 in the two years immediately preceding the adoption of Mr. Pastoriza's heavier land tax plan, and less than $1,600,000 in the two years succeeding it. The value of the building permits issued in Houston in the first six months of 1913 was $3,017,797, and in the first six months of 1914, it was $2,067,574, a falling off of nearly one-third. There is surely nothing in these figures to justify the claims of the single taxers, and this may account for the sudden shutting off of the stream of news that flowed out of Houston up to six months ago. If there is any doubt about the utter absurdity of the single taxers' claims for what heavier land taxes will do it will easily be dispelled by comparing Houston with other cities in Texas which have not had such a tax. Fort Worth, Dallas and San Antonio have each fared better proportionally in growth and in bank deposits than has Houston since the latter city adopted Mr. Pastoriza's plan.

Irrespective of the theory of the single tax, or of the heavier land tax, it is clear that there is nothing in the late history of Houston or of the Canadian cities on which to found a claim that a heavier land tax has beneficial results, or is an improvement over our present system of taxation. Granting that our present system is defective, it seems clear that the heavier land tax is likewise defective, and that the real solution of this perplexing problem has not yet been brought forward.

ANNUAL REASSESSMENT VERSUS THE UNEARNED INCREMENT TAX

By Alfred D. Bernard, LL.B.,
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The basic reasons for the taxation of real estate for local purposes are that the local government especially safeguards the local property, its expenditures are largely beneficial to real estate, and in its expenditures more or less attracts a community, which becomes prosperous under good government and wise expenditures; that the community grows, thus creating a demand for land; that the real estate assumes a value which is given to it by the community; that the growth of the community creates constantly new and changing values, shifting utilities for land, and in many instances increases the values; that the land being a tangible expression of the power of the community to utilize, land may be said to have a community value, which it has received from the local government, and therefore should be taxed.

On this basic proposition, the average intelligent subjects of the United States are apparently unanimous. But there is a great diversity of opinion as to whether real estate should bear the burden of local taxation or whether the tax should be confined to the land with a scaling valuation for improvements, or whether the improvements should be eliminated altogether. Moreover there are advocates of taxing what is termed the unearned increment, which, if the writer correctly understands, is intended to exact from the landowner a portion of the difference between the market values of his land at intervals, on the theory that the increment attaching to the land is through no effort of the owner, but through the growth of the community.

Assuming that there is such a thing as an unearned increment attaching to land, is it fairly a subject of taxation? And if it is a subject of taxation, is it fair to tax this so called unearned increment, and also tax the land at the various periods of reassessment at the then market value of the land? And if this proposition shocks the spirit of fairness, will an annual reassessment be a fair substitute for the unearned increment tax?

The fundamental of all taxation is equality. Quoting from the constitution of Maryland, Article 15 of the Declaration of Rights, following the proposition laid down by Adam Smith in his *Wealth of Nations*, published originally in 1776, ". . . *every person in the state or person holding property therein ought to contribute his portion of public taxes for the support of the government, according to his actual worth in real and personal property.*"

Before attempting to tax the unearned increment, we should make a practical effort to see if we can ascertain what it is, and a few illustrations based on fact may be timely.

In 1898, Smith bought 1,000 shares of Atchison common at $13 per share, and locked it up in a safe deposit box. For a few months after his purchase it fluctuated around buying price, but it never got below $13, and when he sold out at one hundred per share, the contribution of the public and the very excellent management of the road by way of unearned increment amounted to $87,000 less commissions.

The same day Brown bought a small lot on H Street, improved by an old dwelling, for $10,000. It was hard to rent at $500, and Brown studied the situation, and concluded that the conversion of this property into a modern shop would be a wise move. He, accordingly, spent $3,000 in introducing modern heating, plumbing, lighting, a swell store front and creditable decorations. When he finished his repairs he had $13,000 invested in the property. By the exercise of patience and tact, he finally succeeded in getting a tenant who took a long lease at a scaling rent starting at $600 and advancing $100 a year, so that, in 1909, the property was producing $1,600 per annum; the pioneer tenant in the block was doing a splendid business, and other shops had followed him; the utility of the block had completely changed in ten years, and the tenant, feeling that his business was growing rapidly, bought the property from Brown for $30,000, the tenant and Brown both agreeing that the property was actually worth $20,000 at the time of the purchase, but Brown thought that it would ultimately go to $40,000, the seller discounting, and the buyer purchasing the future increment.

In this instance, the daring Brown in risking his capital, the energy of the tenant in pulling business another block, the contribution of the ever increasing public by way of the so called unearned increment produced $17,000.

The day Smith sold out he met a friend who had a perfectly sure thing in beer selling around "80" but going to "120" before spring, and Smith bought 1,000 shares. In three years that concern went into the hands of a receiver, and Smith lost $70,000.

One more incident. The day Brown sold out he felt pretty chesty, and took his wife out in a "demonstrator." They passed a very swell looking suburban plot, beautifully shaded, with a large compelling house, on which was a bargain sign. The property was being shown to a prospect, so they went in. The wife raved over the shade trees, thought the outlook a dream, and the perfume of the hay field opposite the one thing necessary to complete her happiness. Twenty thousand dollars would buy it with five acres of ground and the house cost over $20,000 to build. It was a bargain, how could the owner be so foolish as to part with it? Brown bought the property, spent $2,000 renovating the house, and installed Mrs. Brown in her new paradise, opposite the hayfield view.

The next spring the owner of the hayfield sold it, and before the summer was over a row of two story houses of exasperating monotony was shutting out the beautiful view, and the perfume of the hayfield was punctuated by an odor of fresh plaster and burning pitch. Mrs. Brown had hysterics and her physician ordered her out of the house with dire penalties for disobedience. Brown sold out for $7,900, the value of the lot; the mansion house was torn down and two story houses erected. The contribution to this unearned increment was minus.

Incidents like these are the practical premises from which the thoughtful student of economics must draw his deductions. Smith's friends called him a master of finance, until he bought beer common, then his friends said "————." Brown was regarded likewise by his friends before and after.

Now if the city exacted a part of Smith's profit on the Atchison deal, and Brown's profit on the real estate deal, ought it not fairly return Smith a share of his loss in beer common, or Brown's loss because he could not see that the suburban property he had purchased was obsolete? Such an argument brings the blush of shame to the most ardent student of social economics, yet it is the fundamental principle of taxation that a man should pay taxes on his worth in real and personal property.

But, again, the unearned increment taxer is willing to let Smith go free, on the theory, perhaps, that his profit being a gambler's

profit, he is liable under the law of averages to lose out on his next deal, or perhaps he is not able to fix the community value attaching to a stock jobbing transaction. Can he fix it on the realty deal?

Let us analyze this transaction. Brown's paper profit was $17,000. Against this should be charged the taxes, repairs and interest on his original capital and the fund should be credited with the rent; so that the actual profit was approximately $15,000, of which $5,000 was increment, and $10,000 a tax the tenant paid to the landlord for the privilege of being owner of the good will of the place.

If this increment were solely the contribution of the community, why does one merchant succeed and another fail? If this increment is solely the contribution of the community, why do values shift with shifting utilities? And why in the average large city have the increments attaching to suburban property been largely if not totally offset by the shrinkages in the inside residence districts?

We believe there is an increment attaching to land in certain locations due to the natural growth of the community, which affects its selling value, but the community rarely localizes it. The best corner lot in a given city is seldom the geographical centre or even the centre of population, but is largely due to the enterprise of individuals, the power of advertising, and the consent of the community to be drawn to a given point for a purpose, and that purpose is usually a belief that an advantage may be gained at the particular point.

If ten merchants would open as many large department stores at spaced distances on Fifth Avenue in New York, between Union Square and Central Park, with ample capital and make generous advertising expenditures, the chances are, the five to the south would fail; but if the ten would agree to locate at or near Broadway and Forty-fourth Street, it is more than likely that the whole retail business district of New York would be shifted twelve blocks north; land values in the new district would be quadrupled and the present district would be cut in half. The community would contribute to the increment of the new section by seeking it to buy goods, but the moving factors in the enterprise would be the persons who risked vast sums of money to create the new district.

The owner of a farm on Long Island sees the city grow steadily towards his property. So long as it is a farm its highest market value is expressed in its capacity to produce; hence its utility fixes its highest market value. As the city approaches it, it assumes a

potential or speculative value, in that it will soon be ready for a subdivision, and its value increases beyond its farming utility value. Yet it is not ready for the market and the chances are that a subdivision would be a complete failure. But with the growth of the city it becomes ready for suburban development and the owner sells out to a promoter, who interests capital and capital takes a business risk and is successful. The increment undoubtedly attached to the farm with the growth of the city, but until it was developed it was a farm, and the development required individual effort, capital and management to make it successful. The owner may or may not have made a profit, notwithstanding the apparent paper profit the sale showed on the original cost, as it is a well known fact that many a rural tract held for development has been held so long that the paper profit did not equal the interest the owner would have realized if the cost of the property had been invested in government bonds at 2 per cent.

One more illustration before passing to the main subject. The owners of the respective corners of the block on Main Street erect imposing sky scrapers, thus increasing the traffic on Main Street and the inside lots double in value. This must surely be an increment due wholly to the community. But after the office buildings are twenty years old, the owners find that they will not pay their fixed charges, and they have erected monuments to their own asininity. The owners of the lots improved by the old shacks are offering expressions of sympathy but no rent. The gains in the middle of the block are largely offset by the losses on the corners.

This brings us to the main argument.

If there is any increment attaching to land which may be said to be unearned, it does not attach over night, but is a growth, which is the expression of the growth and buying power of the community. No one would advance the theory that a successful merchant should give up a share of his annual profit to support the local community, but all will agree that he should contribute an equal percentage of his worth, whether it be expressed in real or personal property, and while no one would advance the theory seriously that a professional man should yield up a portion of his annual income to support the local government, yet all will agree that if he invests a part of his earnings, it becomes capital to him and the investment should be taxed.

So with real estate. It is the tangible expression of invested capital, and because it is tangible, a word which has the same root as touch and tax, it has become the target of the community collector. It represents the whole or a portion of the owner's worth and should bear its proportion of the cost of government. Under annual reassessment, if it increases in value, the community gets the taxable percentage of the increment plus the capital invested; if, on the other hand, it depreciates in value, the owner is correspondingly worth less, and the shrinkage is evidenced by the amount of the assessment. But he is still paying his fair portion of the burden of government.

This argument is sound and has its basic thought in equality, which is equity. The inequality does not lie in the amount of the increment, but in the lack of the necessary machinery to properly appraise it, and the machinery to review the appraisement from time to time so that the owner is paying on its present market value, and not on a value fixed at a remote period.

Now assuming the constitutional provision is sound that the individual must pay on his worth and not on his earning power or the earning power of his capital directed by his energy, the practical question for the municipality is: *What is the individual worth?* To ascertain this, that which he owns must be competently appraised; and to competently appraise and review the appraisement, the taxing power must provide the means; and when this means is found and furnished, if it is competent and sufficiently active, the fair market value of the wealth of the subject, whether expressed in unimproved land or real estate or certain forms of personalty, may be annually ascertained, and uniformly and equitably taxed; thus yielding to the support of the local community a percentage of the original capital, plus the annual increment, less the annual shrinkage.

In the judgment of the writer this is all the community has a right to demand. And if the demand is fairly met, the community will be more prosperous, and the burden of taxation more evenly distributed and less onerous, than by special taxation of the brains and energy of certain individuals who happen to be successful money makers.

Will annual reassessment be a fair substitute for the increment tax?

In the larger cities values are constantly changing, due in part to the growth of the city, the shifting of utilities, and the caprices of the citizens. Real estate has cycles of prosperity and adversity, and

values rise and fall with the market. If values were solely the expression of the number and buying power of the community, they should gradually rise as the community grows. But those of us who have real estate holdings are sadly aware of the fact that need, desire and caprice constantly change values.

These changes are most rapid in the commercial centres and in the suburbs, and are generally downward in the intermediate points. To properly appraise values so that an equitable basis of assessment including the increment may be had, it is, in the writer's judgment, necessary that the real property in all large cities, and such personal property as may be locally the subject of taxation by law, should be annually appraised.

While the average thinking man will generally approve annual reassessment in any community where the annual increment is more than the cost of ascertaining its value, there are a number of questions arising as to how unimproved land should be appraised for local taxation. Any number of plausible and ingenious arguments have been advanced whereby land which produces no return in rent should be appraised at a different value or taxed at a different rate from improved property.

A number of cities have urban, suburban and rural rates of taxation, with tests of classification, others with a uniform rate have special or partial exemption features for vacant land. All these features are, in the judgment of the writer, wrong in spirit. The object of the taxing power is to secure revenue, its desire should be to secure it *by taxing value and not earnings.* While the rent an improved property will produce is, if properly capitalized, a safe guide as to the value of the whole, and where the improvements are adequate to the site, the difference between the cost of the improvement, less deterioration and the value of the whole, will fairly represent the land value, still if the value is in unimproved real estate, it is because it has a potential earning power if improved, and present realization value if sold. If the citizen owns $10,000 worth of real estate, it does not make any difference whether it is in a downtown warehouse or an undeveloped suburb, the rate and assessment should be the same.

The argument that the owner of unimproved land gets no revenue, and therefore should have a special rate, creates the single taxer and increment taxer. If the unimproved real estate is worth

its appraised value, it is because the seller may in normal times under normal conditions realize on it. And if he does not realize, it is because he believes that it is going higher than interest on his present realization value, which is an increment.

Another subtle argument which the owner of unimproved land advances is, that if land is taxed at its full value, it brings about an over-improvement of site, creating ruinous competition in improved properties, causing vast wastes in capital, and the withdrawal of capital from real estate investment, unusual vacancies with attendant demoralization.

This is undoubtedly true where the community undertakes to penalize land out of use by making it the sole object of taxation Thus it is now becoming apparent in so called "single tax communities" that the penalization of land and the exemption of improvements have created an over-production of improved properties, not only forcing values downward, but causing the withdrawal of capital from real estate. And here let us state parenthetically, without any attempt to be academic, that there is no such thing as the survival of the fittest in real estate. When values are depressed by reason of over-production, in warehouses, all warehouse property is affected. When there is an over-production of shops, all shop property is affected, and on through the list. Too many properties to choose from makes a choice uncertain, and the purchaser withdraws from the market.

But the practical answer to this argument lies in being able to distinguish the real value. Where a vacant lot in the heart of the city is held out of use, it cannot be because of over-production, but because the owner is unwilling to improve it, unable to satisfy his mind as to how to improve it, or because the increment is in his judgment more than the increment would be plus the interest on the invested capital to improve. Such an owner should pay on real value. Where there is a doubt as to whether the location of the land is such that its highest utility is apparent, this will be reflected in its true value, and should be treated accordingly. Thus in a semi-residence district in a transition state, if the improvements have anything like a construction value, the land has a residence value only, and if the land has a business value, the improvements are obsolete. In either case the whole will fairly balance and should be so considered. But to force a business value on the lot, and at the

same time carry a construction value on the improvement is manifestly unfair. Hence we see in all the large cities this particular class of property bearing more than its share of the taxable burden, requiring skill and judgment in the assessor to differentiate. There is a section, however, in every large city where the question of local taxation is acute, and conditions are hard to meet.

So long as a tract of rural land remains undeveloped, it should not be appraised for taxation for more money than it is reasonably worth as undeveloped property, notwithstanding that the adjoining tract may be developed. To make this clear, if Blackacre farm sold three years ago at $1,000 per acre, and the owner laid it out into building lots and sold out at the rate of $5,000 per acre to one hundred customers after three years of hard work and the expenditure of large sums in development, Longacre, the adjoining tract, is not worth over $1,000 per acre plus the increment which attaches by the development of Blackacre, which may not be an increment, but indicates that the demand for lots was not up to the supply; notwithstanding that single acres might be marketed for $3,000.

In many cities the student of taxation problems will find on one side of the road assessments at $1,000 per acre on undeveloped land, and on the opposite side assessments around $4,000 per acre on building lots, which would apparently be entirely out of harmony. But the average suburban development must be marketed in lots at 500 per cent profit over original cost, to provide for loss of area in streets and alleys, cost of introducing the various services, providing streets, drainage, advertising and selling cost, interest on the investment and a hundred little things which creep into the cost of marketing a suburb.

A still more difficult problem than the above confronts the assessor, and that is the appraisement of land in bulk in the developer and the individual lot owner in the same subdivision.

So long as Blackacre is a farm it has an acreage value. As soon as streets are laid out and the lots staked off, it becomes a subdivision; a pioneer price is placed on each lot, and a number of the choice lots marked sold whether they have been sold or not. The assessor has no difficulty in getting the asking price, and institutes comparisons with adjacent developments. He may reach a conclusion that the lots are priced too high and will not bring the asking price, and will turn them in at say 70 per cent. The lots are figured at 500 per

cent profit and the owner has concluded that he will be ten years working out. He promptly appeals, and makes this argument:

> It is true I paid $1,000 per acre for this farm, and that I have sold five lots out of two hundred at $5,000 per acre. Notwithstanding this profit I will lose money unless I sell out all my holding in ten years. But if I sell out now I will make money at $3,000 an acre notwithstanding my expenditures. And while I want a thousand dollars for one fifth of an acre of land, I will sell you all I have at $3,000 per acre, or 300 per cent on my original investment, which would cut down this assessment to 60 per cent of the sale price of the lots.

Now how are you going to meet it? You cannot. If the land is worth $1,000 per acre undeveloped, and the owner after spending $1,500 per acre on it is willing to sell out at $3,000, it is because as a wholesale proposition that is its value. Therefore the assessor will start in at, say $3,000, and each year advance the assessment as the lots are sold.

Such a treatment is, in the writer's judgment, the only equitable appraisement. It rarely happens that suburban land is advantageously marketed without large expenditures in buildings to establish the atmosphere. These establishments are frequently sold to people who are desirable socially at large monetary losses, which losses are capitalized up against the remaining lots. While a number of developers think a low assessment a desirable asset in marketing the land, it often presents to the enquiring mind of the prospective purchaser the question that either the assessor does not know what he is doing or the purchaser is getting trimmed unmercifully, and when he reaches the latter conclusion, he is no longer a prospective purchaser.

While these values are equalizing themselves, the individual assessments on the lots bought and improved should not be materially changed, until the whole subdivision may be said to be fairly established, and then increase them uniformly at intervals, until the full value of the individual lots has been reached, which will be usually around or less than the original selling value. The equality expert goes through the books and points the finger of scorn at the supposed under assessments. But are they under assessments?

The individual lot buyer is to a certain extent the tool of the promoter, and if there are not enough of them to establish the particular suburb in a reasonable time, the values recede, and the developer cuts his prices to quicken the market. Thus the pioneer

purchaser must either help the developer or the developer will undersell and thus cheapen the pioneer's purchase. And if he takes this risk in becoming a pioneer, can his holding be said to have a market value equal to its purchase price, until approximately all the lots are sold and the property developed beyond the experimental stage?

The last feature of the subject we can touch on in this article, is the question of land contours, soil formations, grades, etc. If the expression of value is fixed by the sale of one or more lots in a suburb, the character of the land is important; and the assessor, in seeking to value the lots uniformly, must take these features into consideration. A gentle terrace a few feet high may be considered desirable. If the land has to be filled up, the fair cost of filling the same should be deducted, plus the cost of the extra foundation of a building reasonably adapted to the lot, if it be found that the fill was below foundation depth. If on the other hand there is a hill with an outcropping of rock, which cannot be treated, the question of moving the rock must be considered. Where the lots run to a swamp, they must be separately treated, and it frequently happens that such lots are practically valueless in low priced subdivisions. We have seen adjoining lots of the same shape and size, with vastly different values per foot, because of these minor factors. So that uniformity in assessment expressed by the foot or acre must be the expression of value, and not the answer to a sum in arithmetic.

In conclusion, most real estate owners are community grouches, and a happy taxpayer as rare as a genuine Rembrandt. He feels the burden which is ever increasing and the tendency of modern government to exempt all forms of personalty and thus double the burden of real estate.

No one would think of buying a piece of real estate, which is not a subject of larceny, without properly recording the deed. But because of lax laws valuable personal securities, which could be stolen, are unregistered and their owners often unknown. Against this the argument goes to heaven, that business is the life of the government, and taxation at the source is taxing business.

But here comes the inexorable law of supply and demand. The cotton lies unpicked on the fields, because there is an over-production of cotton. From the homes of the poor comes the wail, "we cannot afford to buy meat." Why? Because the land is too high to be utilized for cattle production. The farmers have found new utilities for the

land; the country is being divided into building lots and truck farms; arid plains are being irrigated into orchards; apples are worth a fifth of a cent to the producer and 3 to 5 cents to the consumer, the consumer and the producer are both groaning under the weight of taxation, and the railroads carrying so much water that they have no room for apples, and three or four middlemen untaxed making a profit out of that innocent apple before it gets to the 3 cent buyer.

Let the taxation theorist who sees one side boil it down to its final analysis, looking at it from every angle, and he will find that the ultimate security of the bulk of the wealth of the country is in real estate, that the fictitious or paper wealth of the country is the capitalization of the individual effort to utilize either the forces of nature or the real estate, expressed in franchises, as well as actual ownership of land and its appurtenances; that the fictitious wealth is more than the actual; that generally it is untaxed, but generally carries control; that this control is not only a holding force but an influencing force, not infrequently a corrupting force; that the taxing power requires other sources of revenue than real estate; that the so-called unearned increment is a mere cipher in the unthinkable figures which express the wealth of this country; that, as real estate is the only tangible expression of wealth, its value must be stablized, or the country will go the way of ancient Rome; that land values may only be kept up by the lure at least of an increment more than the average interest yields; that before you attempt to tax the increment, you must first determine that it is unearned, which is a very difficult thing to do, and that to tax it is to advertise it, to advertise it is to encourage a gambling scheme, for, viewed from its rosiest aspect, it is a gamble; and lastly, that real estate speculation does not increase values, but tends to make them uncertain; and a national depression in real estate will have as disastrous an effect on the body politic as a whole as an over-production of cotton or a scarcity of beef.

MUNICIPAL TAXATION IN RELATION TO SPECULATIVE LAND VALUES

By Adam Shortt,
Civil Service Commission of Canada.

Whatever may be said of the ultimate basis of national or state and provincial taxation, municipal taxation, at least, is essentially based upon the fact that where increasing numbers of people find it necessary to live together in a more or less limited area, it is essential for elementary safety and comfort that they should undertake to maintain certain services in common. These needs expand with the increasing size of the civic centre and the developing wants of the citizens. After providing for the primary and more indispensable needs, there naturally arises the desire to provide for secondary and higher needs. Organized society, as Aristotle put it, comes into existence to make life possible and continues and develops in order to make life good.

In any considerable centre of population it is plain that there must be coöperation in providing for the supply of those primary needs previously so easily satisfied, if felt at all, in the open freedom of the country. Chief of these are pure water, drainage and sanitation, suitable highways for constant traffic, equipment for the prevention of fires and for the general police protection of life and property. While these primary needs are in process of being met, various secondary needs emerge, such as the need for schools, libraries, parks, the regulation of buildings, and other measures to improve, on the one hand, the atmosphere of civic life and, on the other, its intellectual and artistic quality. In a modern community, making any claim to be ranked as civilized, its individual members cannot be left to make voluntary provision for the supply of these very essential needs, such provision must be placed at the service of every member of the community, whether he may or may not be able to make a proportionate contribution towards the necessary outlay. Thus the taxes which are levied to sustain the various civic departments cannot be regarded as payment for services rendered, on any basis of economic exchange, but as a necessary contribution towards a public charge which must be met as a civic duty. At the same time

the levying of a civic tax should not be open to the charge of injustice or unfairness from the point of view of individuals having similar obligations and similar capacities to meet them.

On the other hand, well ascertained public opinion on the grounds of economic service may support the policy of providing citizens with a street car, or telephone service, or the supply of light, heat, or power, in such forms as electricity or gas. These services, however, cannot be supplied on the same basis as police, or fire protection, or general sanitation. However convenient or even essential when once established, such services must be supported by those who directly benefit by them, on the same principles of exchange as would apply to their provision by private individuals or corporations. The very different grounds on which contributions are made by the citizens to the support of a fire department and an electric light department indicate the essential distinction between municipal taxation and ordinary exchange payments for services rendered. An individual citizen may be given the option of walking to his place of business or riding in a civic tram, but cannot be given the option of leaving his house unprotected against fire while his neighbor is so protected. If, then, some citizens are unable to meet their full share of the cost of fire protection, other citizens must contribute more than their proportion of this cost. The question therefore arises, on what basis should compulsory taxes be levied, as contrasted with the voluntary exchange payments for civic services?

Without arguing the matter in detail, it may be fairly claimed that the only practical basis of regular civic taxation is the basis of ability to pay; and ability to pay necessarily rests upon the average net income enjoyed by the individual citizens, whether singly or in corporations. But, while ability to pay is dependent upon income as a permanent condition of tax paying, it is often very difficult to determine net income, especially where capital is employed, not in a fixed form, but largely as fluid or exchange capital; while the difference between the outgoing and incoming stream is the only indication of net income.

In all normal forms of taxation, whether based upon ability to pay or not, few practical distinctions can be made as between incomes acquired as the result of exceptional personal quality or close attention to business, and incomes derived from forms of investment which call for little exertion on the part of the owner of the capital.

An attempt to follow up this distinction to some extent and to make the relative value contributions of the individual and of the community determining factors in the levying of taxes, is manifested in the arguments for the so-called single tax on land values. It is not possible within our space to pass in review the curious medley of half-truths and more largely proportioned misconceptions in the sphere of economics, directed to the philanthropic object of a universal redemption of mankind, morally, socially and politically, but argued with a most misanthropic fervor against all who question the validity and claims of the system set forth. The fundamental principle maintained is that the local community as a whole contributes to land its entire economic value, while other economic values are derived from human labor and enterprise. This, however, is contrary to obvious facts, it being evident that while no values can exist without reference to the needs of a community, to determine what proportion of human effort or enterprise must cooperate with these needs to furnish articles or services of different values is a very complex and variable problem, and it is as variable in the case of land as in the case of many other articles. Moreover, the community which contributes to the value of land, especially its speculative or exceptional value, is a community some of whose most influential elements reside far from the municipality or even the state or province which would exclusively benefit by a tax levied upon land values alone.

Again, the claim put forward that the single tax would, on the one hand, be a check on land speculation, and, on the other, bring into the civic treasury a considerable share of the speculator's gains, is plainly contrary to the facts. It is just the successful speculator who suffers least of all from any annual tax upon land. The really successful speculator, as evidenced in the remarkable history of land speculation in many western Canadian towns and cities during the past few years, holds his land for so short a period, and makes such phenomenal gains on his sales, that no annual tax on land can do more than take the merest fragment of his profits. On the other hand, when he is through with his land speculation, having accumulated fabulous wealth within a very brief period, he naturally places it in other and safer forms of permanent investment. There, under the single tax system, it would be safe from the tax collector to whose perennial visits the speculator leaves his latest victims, to have their

economic life crushed between the millstones of collapsing land values and rising tax rates.

But while the single land tax conspicuously fails to reach the pocket of the successful land speculator, there is no one whose gains may be more legitimately laid under heavy tribute for civic needs. As a matter of fact the real prices of land before and after a land boom plainly indicate that much the larger proportion of what the shrewd land speculator has dealt in, under the guise of land sales, are simply carefully dressed visions of sudden wealth to be obtained by the transfer of city lots. The lots themselves may have little permanent interest for either party to the speculation. Those, however, who have a permanent use for them can obtain them only at the speculative rates which they bear as counters in the game of land speculation.

One of the most disheartening features in the long period of stagnation and slow recovery, which follows the collapse of a land boom in an over-grown and over-built city, is the legacy of debt and heavy interest charges which is entailed upon the unfortunate citizens. Indeed, during the boom period, a great many expenses which should have been met from the annual taxes are paid out of the proceeds of loans. After the boom, however, not only have these charges to be met out of annual taxes, but also the full interest on the millions borrowed, as well as many repairs and minor replacements rendered necessary by imperfect work under inadequate supervision. Thus, after the boom, the annual taxation may be considerably greater than during the period of flush times and special expenditure. The interest charges alone in many of the best boomed cities in Canada amount to from one-fourth to one-third of the annual taxes. If provision is being made for a sinking fund, the proportion is of course considerably increased.

Now it is commonly found that these great burdens have to be borne in the largest measure, especially if any form of single tax is in operation, not by the successful speculators, who have disposed of the greater part of their land holdings, but by their unfortunate victims, many of whom are forced to purchase their lands for residence or other permanent uses and to pay for them the boom prices, which could not be subsequently recovered.

Obviously, what is required is some system of civic taxation which will be as rapid and effective in operation and as generous in

its levies upon exceptional profits as are the operations and the gains of the successful land speculator. Clearly also this will not be the slow biennial system of taxation, which assesses the property one year and collects the taxes the following year. During this time, in cases of the really typical civic boom, such as we have had in numerous towns and cities in both the United States and Canada, the property may have changed hands scores of times; often, in single transfers, at an increase in value anywhere from 25 to 100 per cent, or more. Nor can effective taxation of the speculator have reference to any rental value of the properties dealt in, rental value being practically non-existent during a civic boom. It must be a system which provides for an automatic tax levy at every legal transfer of the property, and which collects the taxes from the purchaser as part of the price which he has agreed to pay for the land. Moreover, the levy must increase in percentage as the scale of profit increases, thus strictly following the central principle of taxing according to ability to pay.

Such a system of taxation, however, and the application of the proceeds thereof, must be entirely distinct from the system of annual taxation required to meet the current needs of the municipalities. The situation involves a sharp distinction between two forms of civic expenditure. First, we have the expenditure which provides for the regular annual needs of the citizens under normal conditions of civic life. Secondly, we have the capital expenditure, quite irregular as to the periods of the outlay, but which is called for in furnishing a city, frequently all at one time, with a well equipped plant or series of plants to meet the modern needs of the citizens. This is distinct from the annual expenditure in maintaining and operating the plants, and which falls within the scope of annual revenue and expenditure. Thus the provision of an adequate civic water supply, the construction of a well planned system of drainage and sewage disposal, the grading and paving of streets, the provisions for squares and parks, the necessary equipment for fire protection, the erection of public buildings, such as civic buildings, schools, etc., represent a very great outlay which is quite independent of the annual expenditure in maintaining and operating these civic institutions. At present this capital outlay is provided in the shape of huge municipal loans, the subsequent interest on which absorbs from one-fourth to one-third of the annual taxes in many Canadian towns and cities.

In a slowly growing city these expenditures extend over a very considerable period and if a sinking fund is provided for, it may be possible to secure the extinction of one loan on capital account before another requires to be effected. This, however, is a very rare experience among modern cities on this continent. Many towns and cities have suddenly grown up under the stimulus of a speculative fever and have been forced to incur enormous debts within a very brief period, and their capital outlays take place when prices and wages are at high water mark. This means that the capital expenditure is coincident with and commonly due to the very land booms which furnish such enormous gains for the successful land speculators.

A study of the various stages in the growth of a city boom reveals the interesting fact that once the future city is launched on an active period of expansion, (a movement commonly arranged by a group of shrewd and courageous speculators who manage to attract considerable capital from outside sources), the influx of population which is attracted soon creates more work for itself than for its employers. In other words, it requires more workmen in the building and allied trades to build houses to accommodate the workmen themselves than are required to erect buildings for their employers. Further, the incoming army of workmen provides customers for a large body of merchants and middlemen and their employees and dependents, who in turn must all be provided with houses and places of business, again augmenting the numbers to be employed in the building trades. Another class of citizens must provide material and implements for building, and for the equipment and furnishing of these buildings. So the circle continues to widen through agencies of every kind, including bankers, lawyers, doctors, clergymen, teachers, with all the buildings and equipment which they require to carry on their businesses and professions.

At the head of this procession, the original apostles of faith in indefinite expansion, stimulating every form of civic expenditure and of private and corporate investment, are the shrewd and couragous land speculators, reaping phenomenal harvests of profit, and, as becomes men of far-sighted instincts, not envious of the lesser prophets who follow in their wake, imitating their methods and frequently furnishing them with customers.

As experience indicates, a rapid expansion in civic debt goes hand in hand with a rapid expansion in city building and the growth

of population, while an active land speculation accompanies and stimulates both. Now all that is required to transfer a large proportion of these speculative gains from the rapidly expanding bank account of a successful land speculator to the coffers of the city treasury, is to provide, somewhat after the plan adopted in Britain, the necessary legal authority and comparatively simple administrative machinery. Provision ought to be made that the value of each piece of land shall be assessed, as early in its economic career as possible, at its actual market value. Thereafter at the period of each legal sale of the land, when the buyer pays more than its registered value or its value at the last transfer, a certain percentage of the increased value shall be first paid into the civic treasury, and the remainder to the seller as may be agreed upon. The percentage to be thus taken by the municipality shall be graded according to an appointed scale, increasing with an increase in the rate of profit and shortness of time since the previous sale. The price at which each sale takes place shall be registered with the title of the land and will thus be made known to the subsequent purchasers when looking up the title. The registered price at the last transfer would be the basis of information to the purchaser as to what proportion of the price which he has agreed to pay, he must transfer to the city, and what proportion shall be paid to the seller of the land. Take a hypothetical case:—A purchaser, who found that the price which he had agreed to pay for a piece of land was 25 per cent more than the seller had paid for it within a year past, might be required to pay one-third of the increase to the civic treasury and the remainder to its seller. If, however, the profit received were 50 per cent, then he might be required to pay 40 per cent of this profit to the city, and so on according to a graded scale, until, if the profit were 200 or 300 per cent, he might be required to transfer 70 or 80 per cent of it to the civic treasury. If, however, the sale took place not within the year but two or three years after the last sale, the rate should be diminished according to another scale, taking into account interest charges, annual taxation, improvements on the land, etc., which would tend to diminish with time the profits of the sale. Again, if no sale should take place within a given period of five, or possibly ten years, the property should be re-valued and a percentage of the increased value taken on the same basis as to the rate of increase and duration of time as if a sale had taken place at the close of the period. Under this system, while the

aggregate gain to the speculator would still amount to a very attractive profit on his investments, the share coming to the municipality would automatically keep pace with the rise in price, and the rapidity, volume and profit of the land sales.

As already indicated, this form of taxation is intended, on the one hand, to provide for special capital expenditures and not for annual revenues; and, on the other, to secure a reasonable share of the special profits from exceptional increases in land values, especially during short periods. One of its chief virtues, from the point of view of ability to pay, is that it taxes high profits only while these profits are being obtained, and especially while they are being rapidly obtained. When, however, speculation ceases and values remain stationary or decline, this special tax automatically ceases also. It takes nothing from any purchaser who makes no profit on his sales or on his holdings. It is, however, during such periods of stagnation, when the various municipalities are not expanding, that their capital expenditure is certain to be correspondingly light. At the same time the annual needs will be met by the annual taxes on real estate and incomes, above a certain rate, from other sources of invested wealth or personal service.

Certain minor details would, of course, require to be considered in bringing such a scheme of taxation into general operation; but the simple and direct basis of the tax, the important purpose which it would serve, partly in checking extravagant speculation, and partly in furnishing an indispensable capital fund for civic equipment just at the time and in proportion to the need for capital outlay, ought to commend it to the practical consideration of state and provincial governments in both Canada and the United States.

SINGLE TAX

By W. S. U'Ren,

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The single tax is a proposal to exempt all vocations, all land improvements and personal property from taxation for revenue, and to collect all taxes for public revenue from the assessed value or the yearly ground rental value of land. The word "land" is used in its broad sense as meaning the earth. The single-taxers expect that the people will finally take all the yearly ground rental values of land for public purposes.

The system has proved very popular as far as it has been tried, and the more fully it is tried the more popular it becomes. In nearly all of the American states there are constitutional provisions that prevent state or local application of the single tax, though the officers can apply it in very large measure if they wish to do so, so far as exemptions are concerned. Mr. J. J. Pastoriza, assessor of Houston, Texas, assesses land at about 75 per cent of its market value, and improvements and personal property at so small a percentage that it amounts practically to an exemption. No one has interfered effectively yet, chiefly because he has assured the land owners and speculators that if they try to make trouble for him he will enforce the law rigorously in the assessment of personal property of every kind, as well as improvements.

Mr. Reed, the assessor in Multnomah County, Oregon, which includes Portland, assesses land at 75 per cent of its market value; buildings in towns at about 50 per cent of their present value, allowing liberally for depreciation; personal property, notes, accounts, bank stocks, etc., he assesses at 50 per cent or less, and the business men think it is fine; he assesses uncultivated land and land in actual cultivation, of equal fertility and location, at the same rate per acre that he assesses farms, and the farmers think that is fine. Mortgages he does not assess. The board of equalization backs him in this. But every effort to make a law requiring all assessors in Oregon to show as good judgment as Mr. Reed does is bitterly fought on the ground that it is "single tax," "confiscation," "Henry Georgeism," and everything else that is bad.

The purpose of the single tax is much more than a mere fiscal reform in the method of raising public revenues. When fully applied, it will abolish land speculation and involuntary unemployment. Full application of the single tax will give to land users all the profit and product of their labor in using the land, and will necessarily make it impossible for any person to gain a profit by merely owning land without himself using it. This will not reduce or interfere with the rent or income an owner may get for the use of land improvements.

Every exemption from taxes of any class or portion of personal property, or of land improvements, is a step towards the single tax. Every increase of tax on land values that is not equally applied to personal property and land improvements is a step towards the single tax.

The Canadian province of Alberta has probably advanced further towards the single tax than any other government. The latest reports are that no taxes are levied or collected on business, on land improvements, or on personal property, except some small taxes in the city of Edmondton. In addition to this exemption, the province has now provided for levying a sur-tax of 10 mills on the dollar on the assessed value of uncultivated land. This amounts to about 6¼ cents per acre, and the province expects to get $1,500,000 annually from this source. So many of the land speculators in the city of Edmondton are said to be discouraged that more than $1,000,000 of their taxes are delinquent and unpaid. The necessary result will be that this land will be sold for taxes to people who will use it. If so much as $1,000,000 of speculators' taxes are unpaid, it is an indication that some parts of Alberta have raised the single tax high enough to seriously discourage land speculation and speculators. They certainly have greatly encouraged land improvements, and are bringing many new settlers to Alberta. This is true in a less degree of British Columbia and Saskatchewan, because they have not so fully applied the single tax to land values.

In California and Oregon a certain class of municipalities called irrigation districts may levy all their local district taxes on the value of land, exempting improvements and personal property.

Montevideo, in Uruguay, has also taken a long step towards the single tax by levying on land values a special tax of 10 mills that does not apply to personal property and improvements.

Pittsburgh, Pennsylvania, is probably further advanced towards the practical application of single tax for local purposes than any other city in the United States, because the last legislature allowed that city to gradually exempt buildings from taxes, and the further fact that manufacturing machinery has been exempt from taxes in that state for many years.

In the three Pacific coast states there is constant agitation for the single tax, or measures leading to it. In 1912 California rejected a municipal home rule tax measure by a large majority. A better measure was submitted by the next legislature, which was rejected at the recent election, but by a much smaller majority. All the opposition was on the ground that home rule would lead to single tax.

In Washington there has been no state-wide vote, but the cities of Seattle and Everett have each voted twice on municipal exemption proposals. At the last election in Everett the measure was adopted, but the officers refused to enforce it.

Pueblo, Colorado, voted for a city exemption measure last spring, but the officers refused to apply the law.

In 1912 Missouri rejected a single tax measure by an overwhelming majority. In 1914 the anti-single-taxers submitted a measure to make single tax impossible in Missouri, and this was rejected by a very large majority.

The issue has been before the people of Oregon four times. The first was in 1908, on a measure to exempt household furniture, manufacturing machinery and some other labor values in actual use. This measure was rejected by a vote of about two to one in a total vote of 90,000 on the measure. In 1910, backed by the Fels Fund Commission, the single-taxers submitted an amendment for county home rule in taxation, which was adopted by about 2,000 majority, in a total vote of less than 90,000 on the measure. In 1912, again financed by the Fels Fund Commission, a graduated single tax measure was offered and rejected by a vote of eight to three, in a total vote of 112,000 on the question. The county home rule amendment, adopted in 1910, was repealed in 1912. At the same time the people approved a bill exempting all household furniture and jewelry in actual use. In this campaign the opposition spent a large amount of money, probably in the neighborhood of $100,000, directly and indirectly. The single-taxers spent about $40,000, contributed

by the Fels Fund. In 1914 some of the single-taxers submitted a measure by initiative petition exempting every person from taxes on $1,500 of the total assessed value of his dwelling house, live-stock and other land improvements and labor values. It did not exempt corporations. This measure was rejected by a vote of two to one in a total vote of 202,000 voting on the measure. The total cost of the campaign for this measure was about $800. The opposition spent at least twenty times that much. One of its leagues filed a report showing expenses of nearly $9,000.

In these four campaigns the whole opposition to the measures was on the ground that they were single tax, or the opening wedges for single tax. This line of approach to single tax was adopted because of its success in New Zealand and the western provinces of Canada in obtaining partial or complete exemption of labor values from taxation. But in those countries, it seems to have been accepted on its merits chiefly as a fiscal reform. In Missouri and our coast states its opponents said it would lead to confiscation of the farmers' lands. They made no distinction between land and land values, and convinced a large majority of the farmers that they would lose their farms if any measure tending towards single tax should be adopted.

The single tax is a simple and certain method of collecting taxes fairly. The land cannot be hidden, and its value is either well known by every citizen of the neighborhood, or can very easily be learned. There is no inquisition into the private affairs of citizens, and no temptation to false swearing or tax dodging.

But the strongest reasons for the single tax are moral rather than fiscal. Ground rent is the surest and safest method yet invented by which one person gets the product of another's labor and gives nothing in return. This is a moral wrong. The community creates the ground rent values, and if the man who uses the land pays the ground rent to the public treasury as a tax, he will be paying the party who creates the value. That would save the producer or land user from the double tax, one to support the ground owner for being permitted to use the land, and the other on everthing he owns and uses, which is to support the government.

The revival of single tax agitation in the United States dates from the organization of the Fels Fund Commission in 1908. The late Joseph Fels financed it chiefly, putting in about $2 for every

one that was paid by all other advocates. This fund made possible the active campaigns on the Pacific coast, and helped greatly in Missouri. The land agitation in England, the British Colonies and other foreign countries is largely due to his enthusiasm and financial aid. Mrs. Fels is continuing the work so well begun by her husband.

The adoption of the single tax is very greatly retarded because history shows that taxation heretofore has always been a burden, and often the chief instrument of oppression. Added to this is the opinion held by nearly all Americans, who are not themselves tax dodgers, that exemption of any property from taxes is a sort of legalized tax dodging, not much less than criminal. The two opinions taken together make it very difficult to get a fair hearing for the theory that economic freedom can be had by taxing one kind of values exclusively, and that it is entirely just to completely exempt all other values from contributing to the public expenses. No greater service to the single tax and the cause of economic freedom and the abolition of poverty could be rendered by anyone, than the offering of a measure which would avoid these two objections, and would appeal, instantly and of itself, to the sense of justice and to the land and home hunger of every normal man and woman.

Villa has accomplished this in Mexico with his war-cry of "The land for the Peons," and it is fine. They flock to his banner and fight and die for the cause. But Villa does not have to reckon with the American constitutions and courts. For the same reason, the general progress of the movement has been very much more rapid in England and the British Colonies than in the United States. The law-making power of the British people is not ham-strung by a written constitution. When the Parliament makes a law, the courts have no power to declare it null and void. Therefore, the British cry of "The land for the people" creates an enthusiasm which cannot be aroused for a mere fiscal matter like the single tax proposals Americans are obliged to offer.

Our single tax progress on the west coast is really much greater than our one-third vote seems to indicate. At least one-half of the remaining two-thirds of the voters can think of the single tax now without shying. They are opposed to it, but most of them will now listen to a single-taxer without thinking of him as a traitor to American institutions. I believe when the next campaign is made in Oregon, it will be for the straight out single tax measure.

not only proposing raising of public revenues from a tax on land in proportion to its value, but ultimately to tax all the yearly ground rental values into the public treasuries. But of course all personal property and land improvements will be exempted by such a measure.

There may be two more campaigns on that line without gaining much on the present percentage of the total vote, but we shall be gaining ground, nevertheless. Sometime from the third campaign to the fifth, that is, between six and ten years, our single tax measure will go with a rush, just as the prohibition and equal suffrage measures were adopted. There will be no backward step after that, and it will not be long before the people will find public use for all the yearly ground rent values in Oregon.

The thought is in the air, and it is a matter of only a few years, until somewhere in the United States the single tax is put fully in operation. It makes little difference where that is done, because commercial competition will then force its very speedy adoption by all other sections of the country. The commercial competition of Alberta and the western Canadian provinces is helping to spread the idea in the coast states. Within ten years the general property tax will be ancient history on the Pacific coast.

BOOK DEPARTMENT

NOTES

BABASAHEB, NARAYANRAO (Chief of Ichalkaranji). *Impressions of British Life and Character.* Pp. xxiii, 243. Price, $2.25. New York: The Macmillan Company, 1914.

BABSON, ROGER W. *The Future of Nations.* Pp. 123. Price, $1. Wellesley Hills: Babson's Statistical Organization, 1914.

BARRINGTON, MRS. RUSSELL. *The Life of Walter Bagehot.* Pp. viii, 478. Price, $4. New York: Longmans, Green and Company, 1914.

A biography both authoritative and interesting. The Hutton memoirs were not complete. Omissions were necessitated because Walter Bagehot's father was living when the memoirs were written. The present biography, written by a sister-in-law, is apparently exhaustive. The tone is eulogistic, but this merely confirms the verdict of friends that as a man Walter Bagehot was greater even than his books.

BIGELOW, JOHN. *American Policy.* Pp. vi, 184. Price, $1. New York: Charles Scribner's Sons, 1914.

These somewhat unrelated chapters present no definite line of argument. They deal with the population conditions of America and with phases of the Monroe Doctrine. America is shown to be underpopulated, peopled by a variety of races among which the white predominates, the Anglo-Saxon branch dominating. South America, it is asserted, wants immigration but realizes that to populate is to govern and hence is unwilling to see Anglo-Saxons come in large numbers into its borders. After reviewing the Monroe Doctrine and its perversions the author considers how the Americas can be drawn together in spite of the mutual suspicion which now keeps them apart. He concludes that a non-agressive assertion of the Monroe Doctrine such as its framers intended is essential and that to counteract the possibility of European attack upon that policy American states should cultivate the close friendship of Russia, Japan, and China apparently as a means by which a new world balance of power may be brought into being.

BRERETON, CLOUDESLEY. *Who is Responsible? Armageddon and After!* Pp. ix, 104. Price, 50 cents. New York: G. P. Putnam's Sons, 1914.

BUCK, SOLON JUSTUS. *Travel and Description 1765–1865.* Pp. xi, 514. Springfield, Illinois: State Historical Library, 1914.

This volume contains three extensive bibliographies of works referring to the history of the state of Illinois; one dealing with travel and description

1765–1865, one with county histories, atlases and biographical collections, and one with territorial and state laws. The bibliography of travel and description is of great value not only to students of Illinois history but to students of the history of the United States in general. The works are listed in chronological order, each one briefly annotated and certain libraries indicated where they may be found. By the use of the copious and well prepared index one can locate references by author or by topic.

BULLARD, ARTHUR. *Panama.* (Revised Edition.) Pp. xiv, 601. Price, $2. New York: The Macmillan Company, 1914.

This is not Panama of today or of any other day. It is a popular account of the setting in history not only of the state of Panama and of the canal but of the western Caribbean in general. The author presents a running narrative of early settlement, international rivalries, the history of canal construction and present day social and political conditions.

Statistics are conspicuous by their fewness and no attempt is made to distribute space with regard for the relative importance of the subjects discussed. Some of the chapters bear upon the present conditions in the Canal region not at all or only in the most general way.

In spite of these limitations the average reader who wishes an untechnical discussion which will give him an understanding of isthmian history, problems and conditions will find this volume both entertaining and readable.

Catholic Encyclopedia Index, The. Pp. ix, 959. Price, $6. New York: The Encyclopedia Press, Inc., 1914.

The usefulness of the Catholic Encylcopedia has been greatly enhanced by the publication of this large volume of indexes containing the subjects of all articles treated in the body of the work together with references to all leading sub-divisions of subjects occurring in the various articles, references to these topics in other articles and subjects on which there are no special articles. An elaborate system of cross-references adds further value to the index. Many of these references run into several columns of fine print and are a striking evidence of the wealth of material to be found in the fifteen volumes of the Encyclopedia. At the same time, the index emphasizes the absence of a systematic treatment in the body of the work of certain topics on which the historical reader would gladly be informed, as, for example, Papal Revenues, Pluralities, etc., though it would be unfair to expect, in an undertaking of such magnitude, that the special curiostiy of each inquirer should be wholly satisfied. At the close of the volume various courses of reading have been outlined under such headings as apologetics, education, history of the church, law, etc., with references to the appropriate sections of the Encyclopedia.

CHESSER, ELIZABETH SLOAN. *Woman, Marriage and Motherhood.* Pp. xv, 287. Price, $1.50. New York: Funk and Wagnalls Company, 1913.

A frank discussion by a woman of the woman question, that, as the author says, lays "stress upon the importance of efficient, protected motherhood."

To obtain this end, important reforms are advocated affecting marriage laws and woman's legal position, the unmarried mother, divorce, the sweated mother, the factory mother, women prisoners, etc.; but it is recognized at the same time that social betterment is a gradual process. The vote is not a remedy, says Dr. Chesser, neither is the endowment of motherhood nor the removal of the artificial barriers restricting woman's entrance into professional life. "But everything which tends to raise the status of women—above all to secure the adequate protection of woman as mother, is in the best interests of the community." Throughout the book there is reflected the feeling that the reforms advocated are due to a conviction deepened by actual experience with women and women's problems.

COLEMAN, CHRISTOPHER BUSH. *Constantine the Great and Christianity.* Pp. 257. Price, $2. New York: Longmans, Green & Company, 1914.

DAVIES, EMIL. *The Collectivist State in the Making.* Pp. xviii, 267. Price, $1.60. New York: The Macmillan Company, 1914.

Mr. Davies has given us not only an inspiring book on public ownership but has listed a vast number of activities that in one part of the world or another are at present subjects of public control. A large number of states and cities are owners and even speculators in land. There are public monopolies in many forms of transportation and in raw materials. It is interesting to learn that there are municipal bakeries, restaurants and ice plants. We are accustomed to the discussion of public docks and markets but it is seldom that we hear of a publicly owned cold storage plant operating a line of refrigerator cars.

The author attempts to determine the limits of such public activity but finds that this is impossible. There is continued opposition to the increase of public activity but the movement continues to spread. He feels that the movement will continue and that as opportunity and needs develop, public ownership will grow. As the state or city require additional revenues, as the people demand relief from special forms of exploitation, as there is discontent of employees, as socialistic ideas develop, new lines of endeavor will be opened up.

Although we may not be willing to agree with many of the author's forecasts, it is very interesting to learn that such a variety of human needs are at present supplied by public endeavor.

DICK, W. J. *Conservation of Coal in Canada.* Pp. xii, 212. Toronto: Commission of Conservation, 1914.

This is a report of the Commission of Conservation of Canada. The first part discusses and summarizes the problems of coal conservation, such as the use of low grade coals in gas producers, briquettes, coking by use of by-product ovens, etc. The second, and much the larger part, of the report is a description of the mines and mining methods in Canada. Colored maps showing the source of coal for railroads and domestic uses in Canada accompany the report, together with several diagrams and illustrations.

EMERICK, CHARLES F. *The Struggle for Equality in the United States.* Reprinted from *Popular Science Monthly*, Vol. lxxxiii, No. 6, December, 1913; Vol. lxxxiv, Nos. 1–6, January to June, 1914; Vol. lxxxv, No. 1, July, 1914. Pp. 99. Price, 50 cents. New York: *Popular Science Monthly*, 1914.

FARRINGTON, FREDERIC ERNEST. *Commercial Education in Germany.* Pp. ix, 258. Price, $1.10. New York: The Macmillan Company, 1914.

Germany's educational system emphasizes thoroughness and specialization. It tolerates none of the interference on the part of the individual with which we are so familiar in America. It aims at specific ends and measurably attains those ends. This usually leads to status and fixity rather than to mobility of individual destiny. In the vocational field technical skill is at least one definite result of the educational process. Professor Farrington's book outlines in an introductory way the most prominent features of Germany's system as an introduction to the much more extended description of educational arrangements in the commercial field. Beginning with the lower commercial schools, he passes on to a telling discussion of both secondary commercial schools and the colleges of commerce.

In conclusion, he emphasizes the necessity for coöperation of all interests in the working out of plans for commercial education, for a large additional element of compulsion in American methods, for a variety of curriculum to meet local needs, and for continuation schools during day-time hours.

FISKE, AMOS KIDDER. *Honest Business.* Pp. vii, 333. Price, $1.25. New York: G. P. Putnam's Sons, 1914.

The author sums his argument up on page 325 by writing: "The conclusion of the whole matter is that honesty, square dealing, good faith, is best as a business policy. It is not merely a moral virtue, good for the soul or necessary to salvation, and sustained by the sanctions of religion or social custom. It is not simply an ethical principle, essential to sound character and good repute in personal relations, and necessary to the cohesion of well-ordered society. It is a pervasive economic principle, the basis of confidence, which is the foundation of prosperity and material success." The matter is tersely and aptly put. No more carefully worked argument could be found in favor of the business expediency of honest dealing.

FOUNTAIN, PAUL. *The River Amazon from Its Sources to the Sea.* Pp. xi, 321. Price, $2.50. New York: Dodd, Mead and Company, 1914.

A very disappointing account of the Amazon, based upon travels taken thirty years ago in South America. The book gives very little that is new and fails to bring together in usable form the known information. It is, therefore, of little help to the student of South America. There are many observations on animal life, disconnected descriptions of the various rivers of the Amazon system, and the records of personal experiences of travel. The treatment is "gossipy," the material is unorganized, and the topics discussed are often of no special importance.

GUEST, GEORGE. *A Social History of England.* Pp. xi, 209. Price, 40 cents. New York: The Macmillan Company, 1914.

An elementary reader describing in outline the social and industrial life of the people of England from the time of Caesar's invasion to the present. Dividing the time into six periods, the author gives the characteristic features of the economic and social life of the nation in each period, describes and points out the causes of the great changes which occurred in the social structure, and traces the development of modern English institutions. The book is full of valuable information and it shows throughout an intimate acquaintance of the author with the best modern thought on the subject with which he deals.

HANEY, LEWIS H. *Business Organization and Combination.* Pp. xv, 523. Price, $2. New York: The Macmillan Company, 1914.

Professor Haney has enlarged his excellent text by the addition of two chapters, one giving an account of the organization of the International Harvester Company, and the other dealing with the Sherman act and its interpretation by the courts. The Harvester Company's organization affords a good illustration of many of the practices and principles connected with the corporate organization of business. The chapter on the anti-trust act presents a concise account of the important cases in which the law has been applied by the federal courts. The author falls into error in one place, however, (p. 422), when he states that in the Debs case the Sherman law was applied by the supreme court of the United States (158 U. S. 564) "to a combination of wage earners in restraint of trade." The court expressly declined to consider the case with reference to the anti-trust act, saying, however, that it was not to be understood as dissenting from the opinion of the lower court with reference to the scope of that law.

HAYNES, JOHN. *Economics in the Secondary School.* Pp. xii, 93. Price, 60 cents. Boston: Houghton, Mifflin Company, 1914.

This is an interesting little monograph advocating the teaching of economics in the final year of the secondary school course, and giving definite specifications for such a course. The chapter titles are strictly indicative of the content of the monograph. These titles are: the need of economic knowledge; the suitability of economics as a secondary school subject; the present status of economics in the secondary school; the place of economics in the curriculum and its relation to other subjects; methods of teaching economics; the content of the course in economics; bibliographies.

HOWE, C. D. and WHITE, J. N. *Trent Watershed Survey.* Pp. 156, with pocket map. Toronto: Commission of Conservation, 1913.

This report is a detailed study of a small region, and is of very great value because of its bearings upon the general problem of conservation. It is only by such thorough studies of selected localities that solutions to many problems of water and forest conservation can be found. The region covered by

the report is along the line of the Trent Canal, "a section of a once rich forest area in Old Ontario," now rapidly approaching a desert because of mismanagement under the old system of lumbering. The first part of the report gives a summary of the conditions and recommendations for improving them. The second part describes in detail the physiographic and forest conditions of the region and the third part discusses the economic, industrial and social conditions. The report is a regional geography of the Trent Watershed, with special reference to conservation of resources.

JAY, JUNIUS. *Open-Air Politics.* Pp. 235. Price, $1.25. Boston: Houghton, Mifflin Company, 1914.

The writer, who is described as "eminent in public life" and "of more than national fame," has put together in conversational form a series of estimates concerning the most pressing economic and social problems now confronting the United States. Although the material is neither profound nor particularly significant, the author has succeeded in making a readable book.

JENNINGS, AL and IRWIN, WILL. *Beating Back.* Pp. 355. Price, $1.50. New York: D. Appleton and Company, 1914.

Viewed as a thrilling story of outlawry, a description of prison conditions, the struggle of an ex-convict to accomplish his rehabilitation or as a psychological self-analysis, this narrative of Al Jennings, the notorious Oklahoma bandit, as told by Will Irwin, is of absorbing interest. In the first chapter, Mr. Irwin describes the conditions which plunged the young Virginian into one of the most desperate careers of crime. The remainder of the book is the personal story of Al Jennings told in the presence of a stenographer and edited by Mr. Irwin. Perhaps the recital of the criminal career might have been abbreviated, but it gives the setting to prison life. The detailed story of experiences in the Ohio state penitentiary and the Leavenworth prison is one more evidence of the utter inadequacy of the prison system now rapidly being abandoned. The revelations here set forth can only hasten its passing. Public sentiment, when properly enlightened, will no longer tolerate the atrocious treatment of prisoners. The story shows that the ex-convict can come back, but the path is a difficult one, for society has no confidence in the prison as a cure and the victim must still bear the burden of this distrust. That criminals do reform under the present system is one further evidence that they are not the hopeless class they are often assumed to be. The book will stimulate the public desire, even if it does not point the way, for a saner treatment of the criminal.

JOHNSON, JOSEPH FRENCH. *Money and Currency.* (Rev. Ed.) Pp. x, 423. Price, $1.75. Boston: Ginn and Company, 1914.

In this revision Professor Johnson has added a chapter on the reform of the currency system of the United States and has inserted in the appendix a comparison of the Aldrich plan and the federal reserve act. Also several statistical tables have been added.

JONES, LOUIS T. *The Quakers of Iowa.* Pp. 360. Price, $2.50. Iowa City: Iowa State Historical Society, 1914.

This book adds another volume to the rapidly growing list of works on Quaker history, and is a valuable contribution to the social history of the great west.

The author dates the beginnings of Iowa Quakerism from the long pilgrimage in 1835 of Isaac Pidgeon and family who migrated from South Carolina and established their home near the present Salem, Iowa. Then followed a rapid increase of the Quaker population in Iowa which resulted in the establishment of Iowa yearly meeting in 1863. About the same time the great "Revival Movement" began to make itself felt and the attendant innovations led to a separation in 1877 at which time the more conservative Friends parted company with those of the progressive "evangelistic" type.

Due space is allotted to the benevolent and educational efforts of Friends in Iowa and to the present status of Quakerism in that state.

Apparently the author has used the chief printed materials such as *Yearly Meeting Minutes, Disciplines,* and various data published in Friends' periodicals, as well as the manuscript minutes of some monthly and quarterly meetings in Iowa. There is no bibliography. The authorities are cited in the notes which are unfortunately grouped at the end of the volume. There is a good index.

JOSEPH, SAMUEL. *Jewish Immigration to the United States from 1881 to 1910.* Pp. 209. Price, $1.50. New York: Longmans, Green and Company, 1914.

Students of immigration will welcome this volume because of its dispassionate discussion of the political and economic background of Jewish immigration. The author has made no effort whatever to justify or condemn. He has sought merely to explain the movement. In part I we have a picture of the economic, political and social conditions in Russia, Roumania and Austria-Hungary which have resulted in the emigration movement. Part II describes the movement to the United States and shows clearly the fluctuations in the tide as affected directly by the severity of anti-Semitic feeling and legislation in the various countries. Economic conditions in the United States have affected Jewish immigration less than other groups. The latter part of the book is devoted to special characteristics of Jewish immigration such as the family movement, permanent settlement, occupations, illiteracy and destination. Thirty-five pages of statistical tables and three of bibliography add to its value. The absence of an index is a serious omission. The book is written from the point of view of the serious student of the problem, rather than of the alarmist, and ought to give sanity to the discussion.

KEY, ELLEN. *The Younger Generation.* Pp. v, 270. Price, $1.50. New York: G. P. Putnam's Sons, 1914.

Under the general topic *The Younger Generation,* the author has discussed youth, coöperation and culture, the peace problem, militarism, and similar

problems. Although the essays are written in the author's usual happy style, the work is merely another illustration of that unfortunate idea that whenever an author has written a sufficient number of miscellaneous articles to make up three hundred printed pages, he is justified in publishing them under one cover and calling them a book.

KOBAYASHI, TERUAKI. *La Société Japonaise* (translated by M. Junkichi Yoshida). Pp. xx, 223. Price, 5 francs. Paris: Librairie Felix Alcan, 1914.

MAGEE, H. W. Supplement to Magee on Banks and Banking. *The Federal Reserve Act.* Pp. 116. Price, $1. Albany: Matthew Bender and Company, 1914.

This supplement contains the federal reserve act with numerous explanatory notes, followed by such official documents as had been issued at the time of publication. Doubtless additions will be made from time to time in order to keep it constantly up to date.

PAGE, EDWARD D. *Trade Morals: Their Origin, Growth and Province.* Pp. xv, 287. Price, $1.50. New Haven: Yale University Press, 1914.

This work was probably not written as a parody of Sumner's *Folkways*, Giddings' *Principles of Sociology*, and Westermarck's *Origin and Development of the Moral Ideas*, compressed into a very few hundred pages, as one would suspect it to be on first reading. After all, a member of the Hughes committee of 1909, as the author was, could hardly be expected to display subtle and fantastic humor. This book merely shows the dreadful effects of engaging in the dry goods commission business for forty years, before reading Spencer, Darwin, Hobhouse and Hadley. Few men have done all this—no one, so far as we know, has ever before recorded the ensuing mental ferment.

The author's general conclusion is that morals are governed by custom and evolutionary processes—something many others have believed. "Commercial honor is largely a matter of moonshine," wrote R. S. Surtees in *Ask Mama;* that "trade morals" are more substantial than they were pronounced by the sporting writer of the mid-nineteenth century, the work under consideration does not indicate.

PARKER, GEORGE H. *Biology and Social Problems.* Pp. xix, 130. Price, $1.10. New York: Houghton, Mifflin Company, 1914.

The author of this most instructive little work is professor of zoölogy at Harvard, and the contents were originally given as a series of lectures at Amherst. There are four chapters. The first explains the nervous system and its working; the second describes the way in which the body is under the control of various substances known as hormones which are produced largely by the ductless glands; the third carefully explains the process of reproduction, and the last surveys the field of evolution. The style is excellent; the facts are clearly stated. The book is to be recommended to any who may seek a reliable and succinct statement of present thought on these subjects.

REELY, MARY KATHARINE. *Selected Articles on World Peace.* Pp. xxv, 199. Price, $1. White Plains, N. Y.: H. W. Wilson Company, 1914.

ROBBINS, EDWIN CLYDE. *Railway Conductors: A Study in Organized Labor.* Pp. 183. Price, $1.50. New York: Longmans, Green and Company, 1914.

A scholarly discussion, covering history, government, trade regulations and beneficiary features of this railway brotherhood.

SELIGMAN, EDWIN R. A. *Principles of Economics.* (Sixth Edition). Pp. liv, 711. Price, $2.50. New York: Longmans, Green and Company, 1914.

Few works on economics have been kept abreast of current changes as has this treatise by Professor Seligman. In this sixth edition chapters have been added on the control of trusts, labor legislation and labor insurance. The chapters on money and credit have been condensed, but not to the exclusion of a discussion of the federal reserve act. Throughout, there is the same wholesome regard for facts, the same avoidance of doctrinaire attitudes, that has characterized previous editions.

SLADEN, DOUGLAS. *The Real Truth about Germany.* Pp. xiii, 272. Price, $1. New York: G. P. Putnam's Sons, 1914.

The monograph *Truth about Germany* has had a wide circulation in the United States. Published under the supervision of a group of representative Germans, including many high in the nobility and the service of the government, it has an authoritative tone which lends to its cogent arguments force greater than that of most current writing on the war. Mr. Sladen's book is a detailed reply to the German exposition. The original pamphlet is republished and after each paragraph is inserted in black faced type Mr. Sladen's reply from the English point of view. The book presents, therefore, a debate between a German and English writer—in which there is, however, no opportunity for rebuttal by the German. The arrangement makes the book hard to read. The constant shifting of the argument from one side to the other destroys the sequence of the thought of both disputants. The world knows so little about the real situation preceding the war that one often feels that the discussion sinks to the level of unsupported charge and countercharge. Neither writer convinces but each portrays well the current point of view in his country.

SLOANE, WILLIAM MILLIGAN. *Party Government in the United States of America.* Pp. xvii, 451. Price, $2. New York: Harper and Brothers, 1914.

This volume grew out of the series of lectures given by the author during 1912 and 1913 as the Roosevelt professor at the universities of Berlin and Munich. It presents a general survey of our party history and party problems. It brings some of the well-known general discussions, such as Ford's *Rise and Growth of American Politics*, down to date, and discusses current party problems in an inclusive way. It is of value as a general work but makes no specific contributions.

TRIMBLE, WILLIAM J. *The Mining Advance into the Inland Empire.* Pp. 254. Price, 40 cents. Madison: University of Wisconsin, 1914.

The inland empire about which Dr. Trimble writes is that part of North America usually called the interior Pacific-northwest, and includes British Columbia as well as Idaho and Montana. The author tells the story of the settling of this vast region by miners, and paints the picture of the social life in the camps and towns. He then points out the beneficial effect on agriculture and stock-raising of the market afforded by the mining communities. The main purpose of the book, however, is to show that although the inland empire possessed physiographic, industrial and (at first) ethnic unity, the drawing of an international boundary across the domain has produced widely divergent political tendencies which are recurrent and persistent. For instance, the mining laws of British Columbia were copied from Australia and New Zealand whereas those of Idaho and Montana imitated California and Nevada. Also the different attitude toward Negroes and Chinese on the two sides of the line has had a marked effect on the societies of the two places.

For the most part the book is a straightforward compilation and narration of historical facts. It has very little economic or sociological interpretation of the material collected.

URLIN, ETHEL L. *A Short History of Marriage.* Pp. xi, 269. Price, $1.25. Philadelphia: David McKay, 1914.

It is difficult to understand why the author of this volume, after stating in the opening lines of the preface that "In giving this brief summary of the marriage customs of some of the principal nations of the world, my endeavor has been to select those which are in any special degree curious and interesting, and to compile a volume which, while useful for reference, aims primarily at attracting and amusing the general reader," should publish it under the title of *A Short History of Marriage.* If this is the author's concept of what constitutes a history of marriage the concept should be revised. As a narrative or description of "Marriage Rites, Customs and Folklore in Many Countries and All Ages," a secondary title, it is a valuable piece of work. It brings into small space and usable form a wealth of information not only "attractive and amusing" but highly illuminating and instructive in reference to many present survivals in marriage customs and ceremonies.

VAN KLEECK, MARY. *Working Girls in Evening Schools.* Pp. xi, 252. Price, $1.50. New York: Survey Associates, Inc., 1914.

The author has already prepared a series of valuable studies on the various phases of woman's work. This last partakes of the general character of the preceding studies. It is illuminating and telling, though not profound. Thirteen thousand girls and women who were in regular attendance upon evening classes were asked to answer a series of questions regarding working conditions, personal ambitions, and the like. These answers were supplemented by a restricted investigation of a number of cases. The book concludes with a strong recommendation in favor of vocational training and vocational guidance for girls.

WEAVER, E. W. *Vocations for Girls.* Pp. 200. Price, 75 cents. New York: The A. S. Barnes Company, 1913.

Prepared by a committee of teachers under the direction of E. W. Weaver, *Vocations for Girls* covers most completely the field indicated. Beginning with the field of work, preparation and making the choice, the book presents an exhaustive list of possible occupations for young girls. At the end of each chapter is a list of references on the particular topic discussed, and practical questions to be answered.

The general tone of the book is rather patronizing than otherwise, and as such might prove to be rather irritating than helpful to a young woman of independence; but this is perhaps the natural attitude of teacher to pupil.

WHITE, HORACE. *Money and Banking.* (5th Ed., Revised and Enlarged.) Pp. xiv, 541. Price, $1.50. Boston: Ginn and Company, 1914.

Mr. White has supplemented his treatment in the earlier editions of this standard work by inserting a chapter on the federal reserve system and adding appendices in which are given the federal reserve act and the communication sent to the federal reserve board by the New York Clearing House Association, dealing with the sort of commercial paper that should be eligible for rediscount. The new chapter on the federal reserve system summarizes the law and discusses briefly the steps that have thus far been taken in the establishment of the system.

WHITRIDGE, FREDERICK W. *One American's Opinion of the European War.* Pp. xi, 79. Price, 50 cents. New York: E. P. Dutton and Company, 1914.

WOODBURN, JAMES A. *Political Parties and Party Problems in the United States.* (Second revised and enlarged edition). Pp. xiii, 487. Price, $2.50. New York: G. P. Putnam's Sons, 1914.

All students of American party problems and party history are familiar with Professor Woodburn's *Political Parties and Party Problems in the United States,* first published in 1903. The second edition, revised and enlarged, contains all of the valuable and suggestive material in the former volume and brings certain of the statistics down to date throughout the volume—for instance, in the chapter on minor parties—and adds a number of chapters on current political problems, such as the problems of party finance, primary election reform, the initiative, referendum and recall.

To say that the added chapters and the revised portions of the book, few though the revised portions be, are up to the standard of the first edition of this volume is to say that the work as a whole is a concise, orderly, interesting presentation of the general field of party history, party organization and party problems, and of the relation that the usages and methods of political parties bear to our social, national and economic welfare.

ZEBALLOS, E. S. *La Nationalité au point de vue de la Législation Comparée et du Droit Privé Humain.* Pp. 557. Price, 25 fr. Paris: Recueil Sirey, 1914.

REVIEWS

BIZZELL, WILLIAM BENNETT. *Judicial Interpretation of Political Theory.* Pp. v, 273. Price, $1.50. New York: G. P. Putnam's Sons, 1914.

Party conviction has always been "recognized as an essential qualification for the supreme bench in addition to legal learning and public service." In substantiation of this general observation, the author, in his introduction, points out that "only ardent supporters of a strong federal system were elevated to the bench by Washington and Adams." Unanimity in the early opinions herein finds its explanation. The only apparent exception to the conclusion that party conviction was an essential qualification to a position on the supreme bench the author finds to be in the offer of the chief justiceship to Patrick Henry by President Washington in the fall of 1795–96, despite the fact that Henry had been the ablest and most influential opponent of constitutional ratification in Virginia.

The volume reviews the partisan character of many leading cases, including such typical instances as Hepburn *v.* Griswold, a reversal by the supreme court for which political influence has been held responsible, and the "decisions in the insular cases and the decisions growing out of the Inter-State Commerce Act" which have "carried loose construction to its ultimate limit."

Criticisms of the supreme court have been made from the time of the earlier cases on the power of the courts to declare congressional acts unconstitutional, through the Dred Scott case, the prize cases, the legal tender cases, the income tax decisions, to the criticism of the Democratic platform of 1904 in which the Republican party is held responsible for forcing "strained, unnatural constructions upon the statutes by virtue of its control of the judiciary."

The respective chapters include intimate and thorough-going discussions of the judicial power over legislative enactments: theory of constitutional construction; nature of the federal Union; imperialism *v.* expansion; the theory of internal improvements; the theory of the United States bank; the theory of legal tender; the theory of a protective tariff; the theory of an income tax; the theory of direct legislation; and the theory of the recall of judicial decisions. Of these important and far-reaching problems of our national life, the constitutionality of internal improvements and the constitutionality of the recall of judicial decisions only have not been officially determined by the supreme court of the United States.

The volume contains few new facts but it does contain an interesting array of facts, cogently put and interestingly related. "The courts have been able to settle the metes and bounds of practically every [party] issue considered, with the exception of that of slavery." The author extols the "supreme confidence" that the American people have imposed in their federal courts, and finds that "it is fortunate that this confidence exists for it insures the country against riots and civil strife, resulting from heated debate and party antagonism."

The volume is valuable because it brings together the legal and constitutional phases of the most prominent planks in partisan platforms, and

indicates through its every page the close relation between the federal judicial tribunals and the solution of political, social and economic problems.

CLYDE L. KING.

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BÜLOW, PRINCE BERNHARD VON. *Imperial Germany.* (Trans. by Marie A. Lewenz). Pp. 342. Price, $3. New York: Dodd, Mead and Company, 1914.

In this book the ex-chancellor of the empire has given a notable interpretation from a strictly personal point of view of the recent political life of Germany. About one-third of the book is devoted to "foreign policy" and the remainder to "home policy." After a brief survey of the political progress which culminated in the empire, the author proceeds to analyze the various steps which led to Germany's taking a prominent part in international politics —the acquisition of colonies, the alliances and the building of the navy. He divulges the "secret" that only by the most energetic efforts was the government able to wrest from the people consent to accept the burdens involved in the frequent increases of army and navy. In an extended discussion of the relations between Germany and England, he points out that the conflict of interests is bound to be sharp, but never irreconcilable (he writes in 1913), provided Germany asserts herself firmly but keeps calm and cool and neither injures England nor runs after her. In the clear and frank discussion of other factors in the new foreign policy of Germany von Bülow shows that when he was the principal actor he understood to a high degree the realities of the situation. One is tempted to believe that had he continued in office until now the history of 1914 would have been quite different. The one unpleasant note is the ever recurring insistence of the duty of Germany to assert herself whenever her honor is threatened, even from a long distance. This nervous touchiness looks very much like a reflection of the apprehensiveness of a new country that is still uncertain of itself and is oversensitive about its own manners as well as about those of its neighbors.

The conservative bias of the author dominates the discussion of the home policy. Like all German conservatives he believes that the German people are fundamentally incompetent in political affairs and must be governed by authority. In support of this thesis he presents an interesting analysis of the German character, its love of doctrinaire theory, its particularistic tendencies, and its excessive interest in criticizing and fault-finding. Party spirit and party loyalty outweigh even love of country and make the Reichstag a very disagreeable body to do business with. An American wonders that he can complain of this spirit of criticism in view of the fact that in the German system the Reichstag is forbidden to do anything but criticize. As the cardinal principle of von Bülow's political doctrine is that Germany must be governed by authority, it follows that the present one-sided distribution of power between the Bundesrat and the people must not be changed, and that therefore the fight for strong imperial armaments, for a really imperial finance system and against social democracy must be kept up until success is attained.

The book was written for Germans as part of a larger work by various authors. It is to some extent apologetic and polemical. But the treatment is broad and tolerant, as is to be expected of von Bülow, and the book is a distinctly important source for those who are trying to understand the Germany of today. The translation is on the whole excellent—an occasional Germanism has crept in but not often. The use of Lord Lieutenant as equivalent of Oberpräsident is, however, impossible.

ROSCOE J. HAM.

Bowdoin College.

DAVIS, HORACE, A. *The Judicial Veto.* Pp. vi, 148. Price, $1. Boston: Houghton, Mifflin Company, 1914.

The power of the courts to pass on the constitutionality of laws occupies a prominent place in present-day academic discussions. Mr. Davis' volume is a contribution to the already extensive literature on this subject. Two-thirds of the book are devoted to a review of the opinions concerning judicial power held by the makers of the federal constitution and the members of the contemporary ratifying conventions. These arguments have already appeared as an article in the *American Political Science Review.* In the main they go over the same ground covered by Professor Beard in his *The Supreme Court and the Constitution.* The author by use of substantially the same material arrives at the exactly opposite conclusion. There are weaknesses in his arguments but he succeeds in pointing out several important ones in the arguments of those who maintain that the constitution was intended to establish a system of judicial control.

Much more interesting and of greater practical value are the two short introductory chapters in which Mr. Davis essays a constructive program. Admitting that judicial control, whatever its origin, is now firmly established, the author seeks a scheme the effect of which would be "not to review judicial action or to amend the constitution, but prevent the courts from amending it." He finds that our present method of testing the constitutionality of a statute is faulty because it depends on private individuals to bring suit to test the validity of laws, and because a law declared void is held to have been without force from the beginning.

Such a condition produces a feeling of irresponsibility among law makers because "their work, if imperfect, is wholly undone." The courts are in a false position because they "decide on insufficient data and prejudiced argument." The public grows to hold law in light esteem, and concludes that every man may be his own judge as to whether a law is to be obeyed—at least until the court has passed upon it.

The remedy the author suggests involves changing our constitutions so that a law declared unconstitutional should be so only from the time of decision. Aggrieved parties are to be given recompense by the state for such damage as they may have suffered during the period when the act was in operation. Secondly he would have the trial of constitutionality conducted at the instance of the state rather than on the initiative of private individuals.

The aggrieved person merely calls to the attention of the attorney general the damage being done by the law and asks for a review of its constitutionality. At the trial members of the legislature which passed the law and any other persons may present the reasons for the legislation. If the court then decides that the law is in whole or part void its operation is to cease for the future to the extent that is determined by the court.

The author admits there are faults in the logic of his scheme but believes that it would furnish a common sense standard. Many questions will arise in the minds of his readers as to how the plan would actually work in practice, but there can be little doubt that the sort of thinking Mr. Davis attempts is too much neglected. Disputes over the origin of an alleged unfortunate system of judicial control are entertaining for dialectitians but they are far less profitable than studies which aim to determine whether the bad results alleged, actually exist and if they do exist attempt to find the way out.

CHESTER LLOYD JONES.

University of Wisconsin.

DEARLE, N. B. *Industrial Training.* Pp. xiii, 596. Price, 10/6. London: P. S. King and Son, 1914.

The book is an analysis of the conditions of industrial training in London. Mr. Dearle classifies the methods of entering a trade in London under four heads, namely:

1. Regular service, which takes four forms: (a) Formal apprenticeship by indenture; (b) Informal *vs.* Verbal agreement, which is not legally binding; (c) Employment during good behavior; (d) Working and learning.

2. Learning by migration, which applies to workmen having already attained partial proficiency in their trades and takes the following forms: (a) The workman, who has served his apprenticeship, but is still not fully proficient; (b) Apprentices, who through the business retirement of their employers are compelled to enter new apprenticeships, in advanced standing, as "turn overs," the change in apprenticeship being arranged by the employer; (c) The apprentice who has served a pre-arranged short apprenticeship. The "short service apprenticeship" is coming into constantly increasing favor in London. (d) The country trained apprentice whose opportunities for learning usually have been narrow. Having had "a more thorough all-round training than that which is often obtainable in London," the country-trained apprentice "must spend a few years as an improver in the finishing school of London industry," where he "has still to master the finer work, the greater speed of working and the special conditions of machine production, which are frequently characteristic of it." "Often, though by no means always, he makes in the end the best workman." (e) The exploited apprentice; (f) The shiftless, ever-changing workman, whom Dearle calls "the casual fringe;" (g) The "migratory improver proper," who "takes advantage of such opportunities as occur, and advances himself by his own efforts from an unskilled boy laborer to the position of a mechanic."

3. Learning by "following up" a master who goes from one job to another.

"The plumber and his mate, the smith and his hammerman, look for jobs together." The boy "is not there to learn." His business is to assist the man to do his own work. But in so doing, "if he has any capacity at all, he will eventually find" an opportunity "to get a start for himself as an improver (apprentice)." "The vital fact is this, that the youth is there to assist the man. By so doing he finds himself in a position to learn later on, but not till then does he actually do so."

4. "Picking up" a semi-skilled job. Of this there are four classes: (a) Specialized processes, which involve considerable skill within a very narrow range. Such specialization is accompanied by the use of a great deal of machinery; (b) Simple work in the trades, not requiring an expert mechanic, such as carmen, warehousemen, etc.; (c) Jobs requiring small skill, but a high degree of responsibility and care, as crane-drivers, etc., (d) Mates and assistants to other workmen.

Mr. Dearle's treatment of his subject is much amplified by numerous illustrations taken from his actual contact with the industry and workmen concerned. In the remaining 400 pages of his 552 page book, he discusses the values of the different methods of learning described, the conditions of engagement and employment, the trade and technical schools of London, social problems, and future needs and their satisfaction.

The value of the book is informative, and to students of industrial education in America is, at least, suggestive of methods of organizing their research.

JOHN C. FRAZEE.

Philadelphia.

ESCHER, FRANKLIN. *Practical Investing.* Pp. 177. Price, $2.00. New York: Bankers Publishing Company, 1914.

Every discussion of the principles and practices governing the art of practical investing, even though it adds nothing to the sum of financial knowledge, may be welcomed; for the last word on the subject will never be written and the last person who can derive interest and profit from the discussion will never be born. Mr. Escher's book contains no startling theories and no infallible formulas. He does not, as so many investment experts do, try to persuade the reader that there is somewhere in "Financial Utopia" an ideal investment. He rather discourages the idea of ever being able to discover an ideal, saying frankly that "different securities suit different requirements —what for one man would be an ideal investment, might be totally unsuited for another," and that "determining one's investment requirements is not a matter of finance at all, but of plain, everyday common sense."

Starting with a description of the different kinds of securities and their main attributes, he discusses successively the main investment principles—of the desirability of diversifying an investment and of the relative importance of such qualities as marketability, price stability and chance of appreciation. Finally he gives a good general idea of the factors influencing the rise and fall of security prices—of the relations existing between the prices of securities and the money-market and trade conditions.

Two chapters of special interest are "The True Nature of Bonds Convertible into Stock" and "Europe's Influence on the American Market." In spite of the necessary condensation, to cover so vast a field in a moderate sized volume, the book is most serviceable and has the lasting virtue of dealing with a technical subject in a readable manner.

EARLE H. RAUDNITZ.

New York City.

FRANK, TENNEY. *Roman Imperialism.* Pp. xiii, 365. Price, $2.50. New York: The Macmillan Company, 1914.

This book is a timely, scholarly and interesting summary and interpretation of "the precise influences that urged the Roman republic toward territorial expansion." In estimating the motives of conduct of nations as of individuals, the historian cannot be altogether uninfluenced by personal opinion. Professor Frank believes that the expansion of Rome was "groping, stumbling, accidental," caused by specific accidents that led the nation unwittingly from one contest to another, "until, to her own surprise, Rome was mistress of the Mediterranean world." This thesis, maintained with great learning and clarity, is indeed suggestive: yet can anyone of our day and generation tell what ideas and ideals were in the minds of Roman statesmen, in the background of their thoughts? Certain facts, too often neglected, Professor Frank brings forward forcibly. He shows that, at least in her early history, Rome was often reluctant to make war; that she took by conquest far less territory than is generally supposed (only 3 per cent of land conquered in Italy between 338 and 264 B.C.); that apparently neither Rome nor Carthage before the Second Punic War had the idea of universal power nor was bent upon conquest at all costs; that Rome sometimes showed a real sympathy for the national rights of other countries as in the withdrawal from Greece in 196 B.C. by that impractical yet thoroughly Roman sentimentalist, Flamininus; that she at other times too "hauled down the flag;" that more than once she was a liberal ally rather than a tyrannical mistress; and that from the domination of Latium until the "Roman peace" of Augustus, she displayed remarkable sympathetic insight into the psychology of other nations. Professor Frank's book should be of help in forming a fairer judgment on Rome's national policy. So stout a classicist as the late Goldwin Smith is somewhere quoted as believing that the study of Latin authors in the English schools nurtured an arrogantly imperialistic spirit. There is, however, something to be said for the nobler manifestations of Roman power. It is made clear by Professor Frank that the early practice of the Romans, the *mos maiorum* was "based on the naïve assumption that tribes and states, being collections of individuals, must conduct themselves with justice and good faith, even as individuals;" and that the right of aggression and desire for more territory were not just causes of war. Many years later, Augustus boasted that he had observed the ancient fetial rules and had brought war unjustly on no nation. Is modern imperialism so much more conscientious?

KENNETH C. M. SILLS.

Bowdoin College.

GODDARD, H. H. *Feeble-Mindedness. Its Causes and Consequences.* Pp. xii, 559. Price $5. New York: The Macmillan Company, 1914.

Under the far-sighted leadership of its superintendent, Edward R. Johnstone, the Training School for Feeble-Minded Girls and Boys at Vineland, N. J., has become widely known as a place where the children are studied as well as cared for. This research work has been conducted by the author and his assistants. The 327 cases described in this volume are those studied. They represent, we are told, all ages and grades. So far as possible the homes have been visited and all the available facts concerning them and their background secured.

In the first chapter on social problems Dr. Goddard shows the growing evidence that much of the problems of poverty, crime, prostitution, etc., are due to mental defects. Then he tells how the investigations were conducted and considers the reliability of the data secured in the second chapter. It is interesting to note that the reinvestigations required in some cases usually resulted in the discovery of additional cases of feeble-mindedness.

In chapters III and IV (pages 47 to 465) a brief description of each case is given. The material is grouped in accordance with the probable cause of the defect. In 164 families the defect was "*certainly* hereditary." In 34 others this is so probable that the section is called "probably hereditary." Thirty-seven families showed decidedly neuropathic conditions without direct evidence of heredity. In 57 families accident or disease seems to have been the cause. In 8 cases the record was so good that no cause could be discovered while so little could be learned of 27 families that they are not counted in the percentages. These two chapters are of the utmost value. Family charts are presented, the children's portraits are reproduced, and one not familiar with such cases gets much informtion concerning them.

In chapter V the author studies the causes and concludes that heredity is by all means the most important. Only 4.6 per cent of the cases can be attributed to accidents before birth, if the "Mongolians" a most puzzling class coming largely from normal families be excepted. These form 3.6 per cent of the total and apparently are cases of arrested development. Ten and six-tenths per cent are assigned to causes acting after birth and half of these are attributed to meningitis. The data offer "practically no evidence of the spontaneous origin of hereditary feeble-mindedness." Much attention is paid to the possible influence of alcohol. The conclusion reached is that "alcoholism itself is only a symptom." Nor can any relation be established between such diseases as tuberculosis and syphilis and feeble-mindedness.

In chapters VI and VII the author considers the possibility of feeble-mindedness and normal-mindedness being unit characters and presenting the phenomena known to students of biology as "Mendelian." Dr. Goddard reaches the conclusion in spite of a confessed prejudice to the contrary that "normal-mindedness is, or at least behaves like, a unit character." As evidence, he shows that of 324 matings with a total of 1,752 children "the expectation would be feeble-minded, 704, the actual is 708; normal, expectation 352, actual 346."

Eugenics is briefly discussed in ten pages with rather negative conclusions. Dr. Goddard believes in colonization and is far from hostile to the suggestion of sterilization, but feels that either or both will fail to solve the question. Apparently his studies have shown him so many feeble-minded in the community that he simply gives up any idea of solution at present. This is made clearer in the last chapter "Practical Applications." They must be cared for, reproduction surely must be discouraged, better training must be given and our knowledge increased. With what result? The one suggested is that we "may find use for these people of moderate intelligence—who are able and willing to do much of the drudgery of the world, which other people will not do." Just what effect this attitude would have upon ideals of democracy or religion the author does not discuss.

In spite of this curious final attitude the author has given us, whether medical experts or laymen, one of the most important volumes yet written on the subject.

CARL KELSEY.

University of Pennsylvania.

GORDON, ERNEST. *The Anti-Alcohol Movement in Europe.* Pp. 333. Price, $1.50. New York: Fleming H. Revell Company, 1913.

This book can hardly be called a scientific work; it is rather in the publisher's words "a weapon for the conflict in America." It is an arsenal of "facts" selected without critical judgment. The chief value of such a book is a fairly accurate picture of the prohibition movement in Europe; and it gains in interest by virtue of the recent Russian ukase against alcohol, a similar proclamation in Polish Prussia by the Kaiser, and Secretary Daniels' taboo on alcohol in our own Navy. The book has one supreme purpose: national prohibition. The result is apparent in the author's absolute inability to see anything grey: all is either black or white. Hence the tendency to indulge in opprobrious terms; for instance he speaks of "the pro-alcohol pedants on the Committee of Fifty;" Duclaux is called "fanatical;" August Palm is treated to condescending and gratuitous insult. American social workers, *The Survey*, and college graduates in general are insulted because of their indifference to the alcohol question.

From the standpoint of facts the book cannot pass unchallenged. For illustration no one can dogmatize with absolute assurance about the medical value of alcohol. No author can dismiss expert opinion as to the digestive value of alcohol quite so cavalierly and still claim scientific fairmindedness. And no citation of cranial statistics is worth much as an evidence of degeneration. Neither are we prepared to believe that alcoholisation is wholly responsible for valuable lands lying fallow in Normandy. Nor that tree planting along roadways is impossible in the Lierre district of Belgium because drunkards habitually break them down! Moreover the evidence that alcohol and not lead or phosphorus is responsible for so-called lead or phosphorus poisoning is anything but convincing. Again, the pages of horrible examples cited to prove the "devastation which beer-drinking works" in Bremen are

choice illustrations of the fallacy involved in citing one of a complex of causes as the real cause or of failing to distinguish between a cause and a symptom. Misuse of statistics crops out in several places; notably, Eulenberg's figures showing that 1,152 Berlin school-suicides were the result of home troubles not of over-study are declared to mean "in most cases, alcohol." Another glaring instance of faulty correlation is the comparison of Paris figures for alcohol consumption and pawn-shop deposits.

The author trains his guns upon the unholy alliance between the Church and alcohol in England and on the Continent. He dismisses the Gothenburg System as a failure, and hints that its protagonists are perilously near impostors. Social reform is likewise summarily dismissed as offering no hope for alcohol-reform. And the reason is disclosed in the flat pronouncement that the "social order of the Western world rests largely on the sale of alcohol as on its chief support."

While the reviewer is no less interested in the elimination of the alcohol-pest than is the author, he is convinced that the desired end will be attained rather through the very social reform measures which the book repudiates than through such books themselves.

ARTHUR J. TODD.

University of Pittsburgh.

GULICK, SIDNEY L. *The American Japanese Problem.* Pp. x, 349. Price, $1.75. New York: Charles Scribner's Sons, 1914.

With the general thesis of Mr. Gulick's discussion—that we should treat the Japanese immigration problem dispassionately—all will agree. He gives a thorough review of the arguments against allowing Orientals to come to this country on the same basis as Europeans and presents the answers of the more ardent friends of the Asiatics. In this portion of the book there is comparatively little new material, but the author's long familiarity with Japan and the Japanese prompts him to make many of his statements in stronger terms than those in which they are heard in the usual discussions in America.

There is no doubt in the author's mind that the Japanese would be a desirable addition to our population. Their industrious habits, artistic qualities, cleanliness and sobriety recommend them. That they are untrustworthy the author declares is not true. The conditions under which we have known them are deceptive, not the Japanese themselves. Their moral standards he admits are not the same as ours but their virtues are more than a balance for their vices. "Sexual laxity, petty lies, and even business deception are light faults compared with impolite, intemperate speech and uncontrolled wrath" (p. 51). It is to be doubted whether the average Anglo-Saxon would make this choice.

Mr. Gulick does not believe in unlimited immigration. He thinks the laws should be so framed that there would be no discrimination against races either in their terms or in their administration. He would have the number allowed to enter from each country limited to a certain per cent of those of that nationality already within the country—a principle already familiar through legislation proposed in Congress.

The question of the assimilability of the Orientals, it is argued, is not conclusive. Mental assimilation would occur, for the Japanese, it is insisted, take on the viewpoints and ambitions of those with whom they are associated. But this does not mean that members of the two races would necessarily form families. Racial assimilation should follow not precede this social assimilation and for the present mixed marriages are "highly undesirable." These conditions being granted, immigration should be allowed and provision made for naturalization.

Mr. Gulick's solution of the American-Japanese problem involves also active steps for the promotion of friendship between the two nations. A national commission is to determine the advisability of racial assimilation. "The results of their study should be embodied in national laws concerning" intermarriage, sterilization of individuals of undesirable heredity and the Americanizing of "already compacted unassimulated groups of aliens" (p. 294). The national government is to take complete charge of "all legal and legislative matters involving aliens" (p. 293), and a commission is to be given a certain percentage of the total national revenue for the promotion of better international understandings. These suggestions, of course, involve changes in our national constitution and policy beyond the range of practical action.

Mr. Gulick's suggestions for the solution of the American Japanese problem are less valuable than his exposition of its difficulties. These he has placed at the command of his readers in clear language and in terms easily understood by the non-technical reader.

CHESTER LLOYD JONES.

University of Wisconsin.

HALL, HUBERT. (Compiled by.) *A Select Bibliography for the Study, Sources and Literature of English Mediaeval Economic History.* Pp. xiii, 350. Price, 5s. London: P. S. King and Son, 1914.

This bibliography is the outgrowth of an investigation undertaken by Mr. Hall's seminar in history at the London School of Economics following a series of lectures delivered by him on the theory of historical bibliography. Like all works of this character, the question of inclusion and exclusion has been a puzzling one and the problem has been interpreted liberally in so far as Part I constitutes a brief bibliography not only of general mediaeval history but also of universal history and of the sciences auxiliary to history. So far as the continent is concerned this portion of the works adds nothing of interest either in arrangement or material to other well-known guides, but in its inventories of local records for the British Isles, it will prove a valuable help for the student.

The broad interpretation given by the compilers to the term economic history makes this guide of value to all students of mediaeval history as it includes references to works on political, constitutional, legal and ecclesiastical subjects and references to continental developments side by side with those in England, Scotland, Ireland and Wales. Its usefulness to the students

of economic history in particular, however, would have been enhanced if the compilers had avoided the temptation of all bibliographers to include all subjects of allied interest within the scope of their particular topic.

Following the usual practice, the bibliography includes both secondary works and original sources. For the most part descriptions of the items enumerated have been omitted, though valuable brief comments introduce the various sections and sub-divisions of the work. More than 3,000 titles are included in the book, divided into three parts. First, an introduction to the study of English Mediaeval economic history; including a list of the bibliographies of printed material, both secondary and primary for history in general and its auxiliary sciences, and the inventories of state and local archives and records. Second, the sources of mediaeval economic history; including a bibliography of the public and private records of England and her sister kingdoms, and a similar but briefer survey of the records of England's continental neighbors. Third, a list of modern works on special periods and special subjects in any way connected with mediaeval economic history, including the continent as well as England. An appendix follows on publications of learned societies and another on a select list of British and American periodical publications. The book closes with a full and valuable alphabetical index of all works cited.

A. C. HOWLAND.

University of Pennsylvania.

HIRST, F. W. *The Six Panics and Other Essays.* Pp. vii, 302. Price, 3s. 6d. London: Methuen and Company, Ltd., 1913.

The "six panics" were those which the author says have been created in England by and for the "members of the armament ring" to force from the English Parliament heavier expenditures for forts, armaments, dreadnoughts superdreadnoughts and air-ships. The panics described range from that of 1847–48, founded on a made-to-order French invasion, and finally stemmed only by stalwart efforts on the part of Cobden, on through the panics of 1851–53, 1859–61, 1882, the dreadnought panic of 1911, to the air-ship panic of 1913.

The pages are replete with facts as to how public sentiment is periodically aroused to the point of authorizing ever-increasing expenditures for war purposes. The enmities and fears of generations of Englishmen were fed by scores of unfounded reports such as that "Britain is at Germany's mercy now, and it is only the fear of the violation of all international etiquette which keeps her from taking advantage of her superiority." "Well authenticated" visions of German air-ships turned out, after the desired effect had been secured, to be "merely a farmer working at night in a field on the hilltop, taking manure about in a creaky wheelbarrow, with a light swung on the top of a broomstick attached to it." When all else failed, Mr. Balfour, or some other Englishman of like prominence, would aver that "the admiralty did not know the worst about Germany's secret preparations in its docks and shipyards." Says the author, "One of the most ingenious methods adopted

by the international armament firms, of which in April, 1913, Krupp has furnished the classical example, has been to spread false information as to what armament firms in other countries are doing or preparing to do."

In these ways armaments piled upon armaments and distrust accumulated upon distrust, and with each added reason for suspicion or distrust, the means of war were multiplied in all the nations concerned only to necessitate increasing armaments at home. Moreover, each added expenditure multiplied the number and power of those whose occupations and professions demanded increasing expenditures. Thus every added military expenditure is its own precursor for larger expenditures, easily augmented by the scaremonger, with his jingoistic rumors of wars. Thus in part have been created the suspicion and distrust that led inevitably to the present world-war.

CLYDE LYNDON KING.

University of Pennsylvania.

HOBSON, J. A. *Work and Wealth.* Pp. xvi, 367. Price, $2. New York: The Macmillan Company, 1912.

Since the publication of *The Industrial System* and *The Evolution of Modern Capitalism,* American students of economics turn with keen anticipation to any contribution from the pen of Professor Hobson. In the case of the present book, those who have followed the author's previous work will be neither disappointed nor satisfied. The book promises well, opens admirably, and ends badly.

The author puts his thesis succinctly in this form (page 34): "We may state the problem provisionally in three questions; 1. What are the concrete goods and services which constitute the real national income? 2. How are these goods produced? 3. How are they consumed?" Upon the conclusions derived from an analysis of these three questions, the author bases his scheme for the rehabilitation of economic society.

The line of argument leads from a redefinition of costs and utility to a suggested scheme for the humanization of productive activities, which, according to the author, fall under the following heads: "Art, invention, professional services, organization and management, and labor-saving." The total of the productive activities the author conceives as "a process which rolls up costs into commodities" (page 34). That portion of the work which is concerned with the exposition of this contrast is clear, and though not so concise as one would like to see it, it is well-elaborated and effectively explained.

The emphasis on consumption is particularly commendable. "Ruskin," the author insists, "was a great forerunner in the humanization of economic philosophy. From a Pisgah height his mind's eye swept in quick, penetrative glances over the promised land, but he did not occupy it or furnish any clear survey." "Our purpose here is in part to perform the task indicated by Ruskin, viz., to apply to industry the vital standard of valuation, or, at any rate, to improve the instruments of vital survey" (pages 10 and 11). Thus far the science of economics has remained "distinctively mechanical and unfitted for the performance of any human interpretation of industry." "This is due to the failure of our psychological economists to tear themselves away

from the traditions of political economy, which in its very structure has made man subservient to marketable wealth" (page 7). The three defects which "disqualify current and economic science for the work of human valuation" are, first, "the exaggerated stress upon production;" second, "a standard of values which has no consistent relation to human welfare;" and third, "a mechanical conception of the economic system." The dictum of Ruskin is absolutely correct when he insists that "there is no wealth but life." Furthermore, "his insistence that all concrete wealth or money income must be estimated in relation to the vital cost of its production and the vital utility of its consumption, is the eventually accurate standpoint for a human valuation of industry" (page 9).

The most significant part of the present work involves the metrics which the author proposes to use for the measurement of human values in industry. The most unsatisfactory element in the work is the utter failure of these metrics to fulfill the purpose for which the author has created them. At the beginning of chapter four, for example, on "The Creative Factor in Production," the statement appears that "the most distinctively creative kind of human work is called art" (page 44). References to the "poet who does but sing because he must," to the "poor artist," and to the fact that artists are "more than compensated by the products of their work," represent the proximity of the author's mind to any accurate means of estimating values even in the realm where he insists the most creative element in production exists.

Entering the realm of the machine the author asserts,—"At present no doubt a very small proportion of the material which gets turned out by the industrial system contains any appreciable element of this individuality of workmanship" (page 76). Into his system, which the author described as metrical, he has thrown in this one sentence three elements of the most utter uncertainty. He speaks of "a very small proportion," "any appreciable element," and "individuality of workmanship" without supplying even a definition of these terms. Concluding this chapter on the machine, he says: "It is not easy to answer the two related questions—'How far is machinery the master, how far the servant of the workers who coöperate with it!' 'How far does machinery aggravate, how far lighten the human costs of labor' " (page 78)? These questions, which lie at the foundation of the author's task, he does not even attempt to answer. Again the author speaks of speeding up as "the most costly type of labor," and raises questions regarding "a loss of liberty," or "an encroachment upon personality" (page 86) by the industrial mechanism. Such terms are unmeasured, and for the present, at least, unmeasurable.

The reader turns from these chapters with a firm conviction that no metrics have yet been devised which will adequately span the human costs in production. The later chapters of the book, which aimed to apply the author's metrics to a reconstruction of the economic system, fall through the inadequacy of his metrics. The chapters are vague, hazy, and the points made indeterminate and unsatisfactory.

SCOTT NEARING.

University of Pennsylvania.

MALLET, BERNARD. *British Budgets. 1887–1888 to 1912–1913.* Pp. xxiv, 511. Price, $3.25. New York: The Macmillan Company, 1914.

Mr. Mallet has been remarkably successful in this endeavor to supplement the earlier works of Lord Iddesleigh and Mr. Sydney Buxton. Taking up the problems of British financing at the point where Mr. Buxton's study ended (1885–1886) he presents and analyzes the budgets of Messrs. Goschen, Harcourt, Hicks-Beach, Ritchie, Chamberlain, Asquith and Lloyd George. This historical survey is followed by the budget tables for the period studied, and by a collection of tables summarizing governmental receipts and expenditures together with somewhat elaborate notes analyzing these tables.

As one reads this story of British financing and compares it with American practice he is struck with both the advantages and the futility of the budget system. The British practice gives definiteness and conciseness to fiscal matters. The careful forecast of both receipts and expenditures, their adjustment to each other and the close correspondence so often found between estimates and results, arouse admiration. Yet after all England's fiscal problems are much the same as those of the United States. The field of governmental activity is broadening, expenditures are increasing and new sources of revenue are being sought. There are to be seen the same outcry against the growth in annual disbursements and the same unwillingness to call a halt. Direct taxes are gradually being substituted for indirect. Income taxes and death duties are being increased to make possible large payments to local taxation accounts and for social insurance. Sinking fund payments may, in time of need, be drawn upon. In short, an excellent budget system, though invaluable, does not solve all fiscal problems.

There are several matters that probably could not have been treated and Mr. Mallet has wisely avoided them. His estimate of the policies of Mr. Goschen is admirably written but similar estimates of later chancellors cannot be presented for some years. Also a more complete discussion of the budgets of Mr. Lloyd George would have been appropriate had space permitted. Mr. Mallet very properly states that the topic could not be adequately treated within the limits of the present volume.

E. M. PATTERSON.

University of Pennsylvania.

MANGOLD, GEORGE B. *Problems of Child Welfare.* Pp. xv, 522. Price, $2. New York: The Macmillan Company, 1914.

This book is practically a revision and enlargement of the author's previous book, entitled *Child Problems*, and "is designed especially for use by college and university students in courses on constructive and preventive philanthropy."

The social obligations to childhood are conceived to be: the conservation of life, care of health and physique, training and education, protection from child labor, reform and prevention of juvenile delinquency, and care of dependent children.

The book contains an immense amount of information, is well up-to-date in its brief discussion of an encyclopedic number of topics and sub-topics under the six general headings named above. Better discussions of special topics are available in print, but I know of no one book which covers so well the whole field of community care of children.

The most interesting chapters are the introduction and the conclusion, for in these the author departs most from the prevailing method of systematic statement of facts and accepted principles. For example, in the conclusion it is clearly pointed out that unless our programs for child welfare rest more solidly than at present on scientific bases of carefully and widely collected data, they will likely not prove welfare programs at all. Some topics on which he thinks we need more light are: origin of juvenile offenders, results of probation, the nature and causes of physical degeneracy, the real parts played by heredity and environment, the problem of sex education, and the economic basis of social reform.

The author emphatically deplores so-called social legislation for which there has been laid no adequate basis in fact. With this opinion the reviewer is in hearty accord. It is, therefore, something of a shock to read further on this pronouncement: "Of far greater importance than successful case work is the power to inspire and the capacity to develop community action for the promotion of the common good." Can the author make clear how such community action can actually be taken without basing it at every step upon the solid foundation of the facts of case work which he says are comparatively of little importance? For myself I think his earlier plea for more facts on which to base community programs is the sounder view.

Again (p. 491) he says: "The time has also come when we must relegate to the rear our older methods of individual work and begin to apply the new. Private charity is often narrow and individualistic and concerns itself only with binding up the wounds of the distressed." There is much truth in this statement, but is the alternative merely between that of keeping this work individualistic or throwing it away? Is not the third alternative the true one, as has been suggested above; namely, the continuance of case work with individuals but always with the individual in true perspective against the community background?

In short, must we not, whether under private or public auspices, continue to care for each individual as his real need demands, but while we are doing this, get also the maximum of suggestion for community action to prevent the conditions which lead to this kind of distress? Furthermore, shall we ever be free from the obligation to test in terms of individual welfare the results of community laws and programs already in force, or to be in force, designed to meet a particular kind of need?

The book has a varied bibliography and good working index. It should find a real field of usefulness especially as a text-book.

HENRY W. THURSTON.

New York School of Philanthropy.

MORGAN, GEORGE WILSON, AND PARKER, AMASA J. *Banking Law of New York*. Pp. vi, 547. Price, $3.50. New York: The Bank Law Publishing Company, 1914.

As a result of the work of the commission to revise the banking law, appointed by Superintendent George C. Van Tuyl, Jr., the Van Tuyl-Hepburn banking commission has given the state of New York a thoroughly revised banking law. Many needed provisions to the old law have been added, such as bringing certain classes of private bankers under the supervision of the superintendent of banks, and at least a beginning has been made toward protecting small savings accounts received by individuals. The making of small loans by individuals at interest in excess of six per cent per annum has been brought under supervision, and provision has been made for the incorporation by savings and loan associations of a land bank, patterned after the German landshaften.

Messrs. Morgan and Parker have taken the text of the act and supplied in the footnotes, sources, cross-references, reasons for changes, case citations and judicial decisions, pertaining to various provisions of the act, until there is nothing left to be desired in the way of explanation and collateral information. Whenever advisable, references are made to the general corporation law of the state, and comparisons made with similar provisions in the federal reserve act.

In addition to the act which covers, in its various sections, the powers and duties of the superintendent, the state banks, private bankers, trust companies, savings banks, investment companies and brokers, savings and loan associations, the land bank, and credit unions, there is included the general statutes relating to banking corporations, the stock corporation law, the tax law and the penal law. Everything has been done to make the book thorough and convenient for ready reference. The general index, sixty-four pages in length, is noteworthy for its detail and convenience. The book is fully entitled to the popularity it enjoys with the banks and financial institutions in New York. It is far more than a convenience; it is a necessity.

EARLE H. RAUDNITZ.

New York City.

PIGOU, A. C. *Unemployment*. Pp. viii, 256. Price, 50 cents. New York: Henry Holt and Company, 1913.

The Home University Library adds by this study an interesting book on *Unemployment* to its list of "Social Service." The subject is analyzed from all sides and the following conclusions are drawn: in a theoretical, stationary state of society, if wages are artificially raised, a number of workers unable to earn the minimum will be an important cause of unemployment. In our society unemployment is largely caused by rigid wage scales that do not fluctuate with the demand for labor or with fluctuations in industry—seasonal, cyclical, etc.

To offset the existence of unemployment the author suggests various methods for making industry more stable. Among these are more enlighten-

ment on the part of bankers in making loans, the shortening of commercial credits and the development of adequate machinery for securing industrial peace. Among the more immediate remedies are the development of labor exchanges, bureaus of information, the development of public work in times of private depression and the elimination of the unskilled. These are the main remedies but they will not eliminate unemployment. Palliatives such as arrangements for part time in periods of depression and insurance are also necessary.

The book is frankly popular and naturally adds but little to the scientific material that has been accumulated. It is unfortunate therefore that almost one-third of a volume written for the general reading public should be devoted to a serious and rather heavy economic discussion. This fact will without doubt seriously limit its audience.

ALEXANDER FLEISHER.

New York City.

ROSS, EDWARD ALSWORTH. *The Old World in the New.* Pp. 327. Price, $2.40. New York: The Century Company, 1914.

After a brief description of the chief ethnic elements in our early American population, seven chapters are devoted to the description of the different nationalities and peoples that have been added since 1820. No volume extant contains so much descriptive material on our racial complexity. The specific groups studied are: The Celtic Irish, the Germans, the Scandinavians, the Italians, the Slavs, the East European Hebrews, and "the lesser immigrants groups." In the estimates of their respective values in our present racial amalgam the author indulges in sweeping generalizations with scant regard for individual values and differences within the groups. Perhaps this is inevitable in an effort to stress typical characters. In the chapters devoted to Economic Consequences of Immigration," "Social Effects of Immigration," "Immigrants in Politics" and "American Blood and Immigrant Blood," the writer allows himself even greater latitude in unqualified general statements in epigrammatic style. It may be due to the general attitude toward immigration rather than to specific statement that one is made to feel, after reading the book; that the tide is overwhelming, that the social problems are menacing, that immigration is the bane of American politics and that immigrant blood is bad blood. Certainly none of these are closed subjects. Our population in 1910 was but three-tenths of one per cent more foreign born than it was in 1870. The Immigration Commission of 1907 declared that immigrants had not reduced wages, and that the ratio of crime is not greater among aliens than among natives when like groups are compared. Immigrants get their political education from American politicians. Biologists will hardly admit the general assumption of race superiority and inferiority.

Everyone will enjoy the fearlessness with which Professor Ross declares his convictions reached after long and profound study of the problem. The book is cleverly written in the vigorous and often picturesque style characteristic of the author. It is deserving of a wide reading and of careful con-

sideration and especially on the part of those who have strong pro-immigration sympathies. Often it is by considering divergent points of view that the truth is most clearly perceived.

J. P. LICHTENBERGER.

University of Pennsylvania.

THOMPSON, CLARENCE BERTRAND. (Ed. by.) *Scientific Management.* Pp. vii, 878. Price, $3. Cambridge: Harvard University Press, 1914.

Every once in a while the public gets hold of an academic catchword and goes mad over it. If the phrase represents a reform the public clamor does both good and harm. It calls forth a welter of writing some of which has a beneficial educative effect, but much of it is merely personal glorification tagged to a popular whim. Such has been the fate of the term scientific management. So much concerning it has been proclaimed by pen and tongue that a student seeking principles or a business man looking for guidance is at a loss to know which to select and what to cast aside as worthless. Mr. Clarence B. Thompson has endeavored to go through the great mass of material that has been printed since Mr. Taylor first enunciated his principles of management. In a book called *Scientific Management*, Mr. Thompson has made a judicious selection of articles written by the foremost apostles of the new movement and put them together in a form easy of reference. He has performed a real service to everyone who has an interest in teaching or practicing management. Not the least valuable is Mr. Thompson's own article on the bibliography of scientific management. Of course not everyone will agree with the author's selection of articles. Some that he has deemed worthy, others would omit, while some that he has included in his collection might have been left out. He has bestowed extravagant praise upon writers whom those most intimate with the movement consider gifted impostors, but in general his choice is excellent and Mr. Thompson's work is worthy of much commendation.

R. MALCOLM KEIR.

University of Pennsylvania.

WELLINGTON, RAYNOR G. *The Political and Sectional Influence of the Public Lands, 1828–1842.* Pp. 131. Price, $1. Boston: Houghton, Mifflin Company, 1914.

One of the most interesting subjects of the early political history of the United States is the dominating influence exercised by the West on the course pursued by the federal government with regard to the great economic questions over which the three sections of the country clashed during the three decades following 1820. This study attempts to bring out the fact that the attitude of the West toward public lands was in a large measure the determining factor in the outcome of the sectional struggles. As the author states, "The struggles of the sections were centering about these three economic issues—tariff, public lands, and internal improvements. The interest of the different sections in these issues, in order of their importance, was as follows:

the Northwest—low-priced public lands, internal improvements, a high tariff; the Southwest—low-priced public lands, a low tariff, internal improvements; the seaboard South—a low tariff, no internal improvements at federal expense, high-priced public lands; the North Atlantic States—a high tariff, high-priced public lands, internal improvements." The entire situation was complicated by the ambition of the political leaders of the time, Clay, Calhoun, Jackson and Van Buren, each of whom was strongly identified with a particular sectional policy, but each of whom was willing to enter a compromise which would enable him to satisfy his personal aspirations.

Combining with the North Atlantic States the West brought about the enactment of a high tariff law, expecting that in return the manufacturing district would concede the chief desire of the West—low-priced public lands. The refusal of the North Atlantic States to make this concession drove the West into an alliance with the South. Both parties of this combination attained its chief interest, a low tariff and low-priced public lands, and in presidential campaigns after 1832 the real political leaders of the day were set aside for individuals who were less outspoken in their beliefs and more colorless in their policies.

The author states his problem definitely and concisely; the treatment is throughout clear and logical; and the references show a painstaking research into all the important source material bearing on the subject.

T. W. VAN METRE.

University of Pennsylvania.

REPORT OF THE BOARD OF DIRECTORS, YEAR ENDING DECEMBER 31, 1914, AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

I. REVIEW OF ACADEMY'S ACTIVITIES

During the last year there is no special change to report in the methods of conducting the work of the Academy. There is, however, a change in personnel which calls for comment. Owing to the tremendous increase in work caused by the appointment of Prof. Emory R. Johnson to the Public Service Commission of the state of Pennsylvania, he found it necessary to resign his position as Editor of THE ANNALS, having been editor since 1902. A large part of the influence which the Academy has gained through its publications is due to his efforts. Professor Johnson still remains a member of the Board of Directors and continues his interest in the work of the Academy. Though we deeply regret the necessity for change, the Board is pleased to report that in the person of Dr. Clyde L. King we have secured another enthusiastic worker to take his place. Dr. King has been Assistant Editor of THE ANNALS since September, 1912, and, therefore, is ably prepared for his new duties.

In many ways the greatest loss which the Academy suffered this year was the death of Mr. Stuart Wood who, since the establishment of the Academy, had served as its Treasurer. Faithful and conscientious in all his work, careful and conservative in all the investments of the Academy's funds, he proved himself a devoted friend and wise counsellor. We are fortunate, however, in having been able to secure the consent of Mr. Charles J. Rhoads to serve as our Treasurer. That so busy a man as Mr. Rhoads should be willing to assume this obligation is but another indication of the respect which thinking men have for the work the Academy is doing. It should be remembered further that Mr. Rhoads, in common with all the other officers of the Academy, performs these duties without compensation.

Dr. L. S. Rowe, who has been President since 1902, and to whose untiring efforts and ability the growth and service of the Academy are largely due, returns to his position as President of the Academy

after a leave of absence of nearly a year for research work in South American countries. His work has been cheerfully carried and effectively forwarded by Dr. Carl Kelsey as Acting President.

The position which the Academy has come to occupy in public life in this country is evidenced, to the satisfaction of the Board, by the fact that in spite of the great business depression the membership has suffered but a slight loss. There also is much evidence that THE ANNALS is used increasingly by students of social questions, as during the last year a goodly number of libraries have added it to their regular list.

Plans for the celebration of the Twenty-fifth Anniversary of the founding of the Academy were well under way last summer, when the war broke out in Europe. Inasmuch as we had hoped to have some of the European members present, and also in view of the additional fact that the President of the Academy was on a trip to South America, from which he would not return until the beginning of 1915, it was deemed necessary to postpone this special celebration for another year.

II. PUBLICATIONS

During the year 1914 the Academy has published a series of volumes which have brought together the best thought of the country on the important problems with which these volumes deal:

January: Housing and Town Planning.
March: Reform in the Administration of Justice.
May: State Regulation of Public Utilities.
July: International Relations of the United States.
September: Government Regulation of Water Transportation.
November: Women in Public Life.

Your Board desires to take this opportunity to express its obligations to the Editor-in-Chief, to the Assistant Editors, and to the other members of the Editorial Council for their unselfish devotion to the publication work of the Academy.

III. MEETINGS

During the year 1914 the Academy has held the following meetings:

January 20. Future of Political Parties in the United States.

February 26. Relation of the Federal Government to Trusts and Industrial Combinations.

April 3. (Eighteenth Annual Meeting.) The Present International Relations of the United States.

November 13–14. Public Policies as to Municipal Utilities. (Conference of American Mayors.)

December 5. National Aspects of the Child Labor Problem.

IV. MEMBERSHIP

The membership of the Academy on the 31st of December, 1914, was 5,527, with a subscription list of 786, making a total of 6,313. Of the 5,527 members, 1,233 are residents of Philadelphia, 4,080 are residents of the United States outside of Philadelphia, and 214 are foreign members. Of the 786 subscribers 4 are from Philadelphia, 706 from the United States outside of Philadelphia, and 76 from foreign countries. Compared with the membership on the 31st of December, 1913, we find that in the Philadelphia membership there is a gain of 13, in the membership in the United States outside of Philadelphia a loss of 126, and in the foreign membership a loss of 1, or a total loss of 114. In the subscription list there is a gain of 90 in the United States outside of Philadelphia and 6 in the foreign subscriptions, making a total gain in the subscription list of 96. The total loss in the combined subscription and membership lists therefore is but 18.

During the year the Academy has lost through death 84 of its members, 7 of whom were life members:

Foreign

Dr. Agustin Alvarez
Thomas Richard Bayliss
Prof. Dr. Eugen Ritter von Böhm-Bawerk
Prof. Dr. E. Leser
Senor Segismundo Moret y Prendergast

Philadelphia

George F. Baer
B. Frank Clapp
Prof. Charles E. Dana
John M. Dearnley
Thomas Dolan
J. Ewald Dülken
L. G. Fouse
James H. M. Hayes
Hon. Samuel W. Hyneman
W. W. Justice

Isidor Langsdorf
Morris Pfaelzer
Henry D. Rogers
Dr. George Strawbridge
Miss Anne C. Swan
Augustus Thomas
Hon. W. W. Wiltbank
Stuart Wood

Outside

Ralph P. Badeau
Dr. Henry Banga
General A. H. Beach
George Blakistone
W. H. Bryant
Colonel William Busby
Prof. Robert C. Chapin
C. A. Clark
Charles F. Currie
J. Stearns Cushing
*James S. Dennis
F. W. Dohrmann
Hon. Eben S. Draper
Joseph D. Ellis
Hon. Henry Exall
Hon. Nathaniel Ewing
Guy E. Farquhar
Owen Ford
William A. Giles
John C. Grant
E. H. Hall
E. R. Henry
Charles F. Hinckle
L. E. Holden
Prof. Franklin W. Hooper
*Hon. James R. Howe
Adrian Hoffman Joline
Dwight A. Jones
Louis Jones
Rev. A. Kaupas
J. M. Lawford
Woodward Leavenworth
Prof. Gustav Le Gras
William Lummis
William D. Marks
T. A. Matthews
C. G. Messerole
Frank R. Morse
H. Mosenthal
Louis T. Nolker
Charles W. Ogden
Benjamin S. Palmer
Hinsdill Parsons
Louis W. Powell
Samuel F. Prince, Jr.
George M. Robbins
Henry C. Schaertzer
Herbert A. Scheftel
F. A. Schwertner
John P. Scripps
Simon H. Stein
*Baron Strathcona
F. L. Taft
Hon. James Tillinghast
William S. Warren
William De H. Washington
*George Westinghouse
Dr. John R. Whiteside
Benezette Williams
*Rev. S. H. Winkley
Henry C. Wood

* Life Members.

The death of these members has deprived the Academy of some very warm friends and enthusiastic workers.

During the year the Academy has lost by resignation and deaths 757 of its members and 29 subscribers, while 643 new members and 125 new subscribers have been added to the list.

V. FINANCIAL CONDITION

The receipts and expenditures of the Academy for the fiscal year just ended are clearly set forth in the Treasurer's report. The accounts were submitted to Messrs. E. P. Moxey and Company for audit and a copy of their statement is herewith appended.

In order to lighten the burden of expense incident to the annual meeting a special fund amounting to $1,305 was raised. The Board takes this opportunity to express its gratitude to the contributors to this fund.

VI. CONCLUSION

Your Board takes this opportunity to thank the members and friends of the Academy throughout the country who have been zealous in furthering its work, both by the securing of new members and in the way of suggestions of topics to be discussed, either in public meetings or in THE ANNALS. We owe a special debt of gratitude to those men and women who have contributed to the various volumes of THE ANNALS.

Philadelphia, January 13, 1915.

CHARLES J. RHOADS, ESQ., TREAS.,

American Academy of Political and Social Science, Philadelphia, Pa.

DEAR SIR: We herewith report that we have audited the books and accounts of the American Academy of Political and Social Science for its fiscal year ended December 31, 1914.

We have prepared and submit herewith statement of receipts and disbursements during the above indicated period, together with statement of assets as at December 31, 1914.

The receipts from all sources were verified by a comparison of the entries for same appearing in the Treasurer's cash book with the record of bank deposits and were found to be in accord therewith.

The disbursements, as shown by the cash book, were supported by proper vouchers. These vouchers were in the form of cancelled paid checks or receipts for moneys expended. These were examined by us and verified the correctness of the payments made.

The investment securities listed in the statement of assets wereexamined by us and were found to be correct and in accord with the books.

As the result of our audit and examination we certify that the statements submitted herewith are true and correct.

Yours respectfully,

EDWARD P. MOXEY & CO.,
Certified Public Accountants.

Balance Cash on hand January 1, 1914			**$ 3,523.55**
Receipts			
Annual dues		$23,432.63	
Special Contributions		1,305.00	
Subscriptions to Publications		2,975.16	
Sales of Publications		3,610.32	
Income from Investments		3,112.50	
Interest on Deposits		94.95	
Miscellaneous Receipts		229.18	34,759.74
			38,283.29
Disbursements			
Office Expense			
Office Salaries	$8,702.82		
Special Clerical Service	8.25		
Supplies and Repairs	789.83		
Stationery	381.45		
Telephone and Telegraph	118.11		
Postage	455.89		
Freight, Express and Carfares	28.74		
General Expense	62.00	$10,547.09	
Philadelphia Meetings			
Hall Rents	$375.50		
Stationery, Engraving and Printing	971.55		
Clerical Services	106.10		
Expenses of Speakers	717.22		
Postage	235.15		
Telephone and Telegraph	32.61		
Carfare, Newspapers and Sundries	14.99	2,453.12	
Publicity Expense			
Pamphlets, Cards, Letters, Circulars and Advertising	$222.00		
Postage	603.00		
Stationery	391.75	1,216.75	
Publication of Annals			
Printing	$7,574.81		
Reprints	473.88		
Binding	396.78		
Postage	1,026.79		
Advertising	5.00		
Stationery	339.11		
Carfare, Expressage and Sundries	91.43		
Telephone and Telegraph	66.98		
Storage and Insurance	21.11	9,995.89	24,212.85
Balance December 31, 1914			**$14,070.44**

ASSETS

Investments

$5,000.00	Baldwin Locomotive Works..... 1st Mtg. 5's—1940—M. & N.	$4,975.00
5,000.00	Choctaw, Oklahoma & Gulf R. R. Co..... Gen'l. 5's—1919—J. & J.	5,000.00
5,000.00	City of Macon, Ga..... Water Works 4½'s—1932—J. & J.	5,000.00
5,000.00	Lake Shore & Michigan Southern Ry. Co..... Deb. 4's—1928—M. & S.	4,801.25
5,000.00	Lehigh Coal & Navigation Co..... Coll. Trust 4½'s—1930—M. & N.	5,000.00
5,000.00	Lehigh Valley Transit Co..... 1st Mtg. 4's—1935—M. & S.	4,387.50
3,000.00	Market Street Elevated Passenger Ry. Co..... 1st Mtg. 4's—1955—M. & N.	2,786.25
3,500.00	Mortgage Note, C. R. McFarland, Tampa, Fla..... 3 Yrs. at 6% dated Dec. 15th, 1909	3,500.00
5,000.00	New York and Erie Railway..... 2nd Mtg. 5's—1919—M. & S.	5,000.00
4,000.00	New York and Erie Railway..... 3rd Mtg. 4½'s—1923—M. & S.	3,955.00
5,000.00	New York Central & Hudson River R. R..... Deb. 4's—1934—M. & N.	4,640.00
3,000.00	Penna. & New York Canal & R. R. Co..... Cons. Mtg. 4½'s—1939—A. & O.	3,000.00
3,000.00	Pittsburg, Bessemer & Lake Erie..... Cons. 1st Mtg. 5's—1947—J. & J.	3,000.00
3,000.00	St. Louis & Merchants Bridge Co..... 1st Mtg. 6's—1929—F. & A.	3,000.00
3,000.00	St. Louis, Iron Mountain & Southern Ry..... General Mtg. Land Grant 5's—1931—A. & O.	3,000.00
5,000.00	West Chester Lighting Co..... 1st Mtg. 5's—1950—J. & D.	5,000.00
5,000.00	William Cramp & Sons Ship & Engine Bldg. Co..... 1st Mtg. 5's—1929—M. & S.	5,000.00
		$71,045.00

Forward		$71,045.00
Cash:		
In Academy Office	200.00	
In Treasurer's Hands:		
Centennial Nat'l Bank	200.00	
Girard Trust Co.	13,595.50	
Amount due from A. S. Harvey	24.60	
Amount due from E. Tornquist	50.34	14,070.44
		$85,115.44

LIABILITIES

None.

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THE ANNALS OF
THE AMERICAN ACADEMY OF POLITICAL
AND SOCIAL SCIENCE

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Readjustments in Taxation

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Editorial Office, Woodland Avenue and 34th Street, Philadelphia, Pa.

IMPORTANT NOTICE TO MEMBERS

NINETEENTH ANNUAL MEETING

Friday and Saturday, April 28 and May 1, 1915

The officers of the American Academy of Political and Social Science take pleasure in informing the members that the Nineteenth Annual Meeting will be held on Friday and Saturday, April 28th and 29th. In selecting a topic for the Annual Meeting, your Board of Directors has sought a subject which will enable the Academy to render the greatest possible national service. We have deeply realized the opportunity that the annual meeting presents for considering the country's five distinctive American problems that have developed here as a result of the European war.

It is the purpose of the Academy to exclude all discussion of the responsibility for the European conflict. The war, however, is affecting American industry, American trade, American finance and American commerce, and we feel that these questions require immediate and serious consideration.

The Annual Meeting will consist of six sessions, each of which will be devoted to some important phase of the general topic. We hope to bring together the leading authorities of the different sections of the country. We are exceedingly anxious to have present as large a representation of the Academy membership as possible. In order that the Committee in charge may have data as to how many will be present, we will greatly appreciate your sending word as soon as possible whether it will be possible for you to be in Philadelphia on the 28th and 29th of April.

It was the intention of the Board of Directors to make this Annual Meeting an international celebration of the Twenty-fifth Anniversary of the founding of the Academy. Inasmuch, however, as our foreign members cannot be present this year, we have decided to postpone this celebration until 1916.

It will be of interest to the members to know that the May and September issues of THE ANNALS will be devoted to a discussion of important elements in America's industrial opportunities and position.

Kindly reply to American Academy,
Post Office Box 202,
West Philadelphia, P. O.,
Philadelphia, Pennsylvania.

L. S. ROWE, President.

The American Academy
of
Political and Social Science
Philadelphia